



A Study on Bankruptcy of Airline Sector During Covid Pandemic and their Effect on Related Industries

Dr.M.Ravichandran^a, R. Senthorya^b

^aAssistant professor, Department of Management studies, University College of Engineering, BIT Campus, Anna university Tiruchirappalli, dr.murugaraviksp@gmail.com, <https://orcid.org/0000-0002-3778-5716>

^bMBA Student, Department of Management studies, Department of Management studies, University College of Engineering, BIT Campus Anna university Tiruchirappalli, senthorya.r@gmail.com, <https://orcid.org/0000-0001-6730-5210>

ABSTRACT

After the emerging of covid pandemic in 2019, each and every industry had faced difficulties in their survival. It is a global pandemic, so all kind of businesses regardless of their nature (Domestic, International, Global) got affected. Airlines were one of the first industries to feel the pain of the pandemic. Analysing, monitoring, predicting financial distress are the crucial process for those who might get affected if there is a possibility of financial distress in the particular company. This study focuses on bankrupted airline companies, factors for their financial distress and their impact on the related industries.

Keywords:

Bankruptcy, Airline sector, airline related companies' difficulties, Covid impact on bankruptcy

1. Introduction

1.1 Covid pandemic impact on business

After the emerging of covid pandemic in 2019, each and every industry had faced difficulties in their survival. It is a global pandemic, so all kind of businesses regardless of their nature (Domestic, International, Global) got affected. Even though there was a great demand for pharmaceuticals and medical industry, they even couldn't bare the demand and supply. All the businesses undergone through a great misery conclusively. Anyhow some of them learned to survive and implement their alternative strategies to be succeed. For example, IT sector also affected because of personnel management; To get rid of from that IT sector business adopt work from home method and even after the cancellation of lockdown, they continue to use the work from home method to increase their revenue by cutting off the office expenses. But many of the business sector completely affected that is Travel, Tourism, Restaurant, Hotel, Real estate, Entertainment, Theme Park and a lot more.

1.2 Travel sector

The travel industry is one of the largest service industries in the world, an increasingly important one in the modern age. It is centered on the movement of people from one location to another, as well as the services they require along the way and is closely linked to the hospitality industry and the hotel industry, among others.

Airlines were one of the first industries to feel the pain of the pandemic. While the travel industry and the tourism industry are interlinked, it is important to understand that there are some notable differences between the two. Essentially, the tourism industry relates to the industry centered on tourism, which is the specific act of travelling to a different location, either for business or pleasure.

By contrast, the travel industry is simply related to a person's travel from one place to another, and the various services they use in that process. In some ways, this means that the travel industry is slightly broader than the tourism industry because it covers a wider number of travel purposes and includes trips to non-tourist destinations.

1.3 Bankruptcy

The Indian Insolvency and Bankruptcy Code 2016 describes Bankruptcy as a legal status usually imposed by court, on a firm or an individual who is unable to meet its debt obligations. However, the Insolvency is described in the code as "a situation where individuals or organizations are unable to meet their financial obligations." Bankruptcy also called as financial distress or default. Analyzing, predicting financial distress, monitoring are the crucial process for those who might get affected if there is a possibility of financial distress in the particular company.

2. Airline bankruptcy after covid pandemic emergence

- **Virgin Atlantic and Virgin Australia**

Virgin Atlantic joined the fray in August 2020, filing for Chapter 15 bankruptcy as it worked to firm up a bailout aided by the British government. Its sister airline, Virgin Australia, had already filed for bankruptcy in April after the Australian government decided against a massive bailout. Delta owns 49% of Virgin Atlantic.

- **Norwegian Air**

Norwegian Air was already struggling before the pandemic, and several of its subsidiaries had already filed for bankruptcy. But it joined them officially in November 2020, filing for what amounted to a Chapter 11 equivalent in Ireland, and then the same in Norway in December. The low-fare carrier said it would operate normally while trying to restructure. After six months, the airline emerged from bankruptcy in late May, announcing it had nearly wiped out its debt with 6 billion Norwegian crowns (about \$716 million) in fresh capital and plans to revamp itself as a regional carrier with a leaner fleet of planes.

- **Avianca**

This prominent Latin American airline filed for Chapter 11 protection in May 2020, blaming "the unforeseeable impact" of the pandemic on business. The company cited travel lockdowns, but analysts said the airline was already in trouble from negative credit ratings and sudden leadership changes.

- **LATAM Airlines**

Latin America's largest carrier filed for Chapter 11 protection in May 2020. Unlike chief competitor Avianca, it was on solid financial footing before most flights were grounded, according to Reuters.

- **Compass Airlines (US)**

March 2020, Compass Airlines — also owned by Trans States Holdings — will also shut down in April. Compass is another regional carrier, which operates flights for American Airlines under its American Eagle brand. With American cutting domestic capacity by up to 80% by May, it's had less of a need for contract airlines.

- **Trans States Airlines (US)**

March 2020, Trans States Airlines is a Missouri-based regional airline that flies routes for United under the United Express brand. The airline had already been planning to shut down by the end of 2020, consolidating its operations with ExpressJet Airlines, another of United's regional carrier. However, due to

the "unforeseen impact of the coronavirus," the airline will cease all operations on April 1, Trans States Holding CEO said in a memo to employees. Trans States operated a flight of Embraer ERJ-145 regional jets.

- ***Flybe (UK)***

March 2020, UK regional airline Flybe entered administration — a practice similar to declaring bankruptcy — on Thursday, March 5. Although Flybe was already on the brink of collapse — despite a major investment by a Virgin Atlantic-led consortium the previous summer — the coronavirus crisis pushed it over the edge. Flybe operated about 40% of domestic flights in the UK.

3. Factors causing airline bankruptcy

- ***Passenger behaviour***

As the pandemic start to spread, passengers avoid travelling to safeguard themselves.

- ***Suspension of flight operations***

After the emergence of the covid spread, most of the country's government impose suspension of airline operations as a control measure of pandemic spread. It affects the functioning of airline business vastly.

- ***Long lasted shutdown of airline activities***

After a year, most of the developing countries and under developed countries loosen their restrictions on airline operations. But developed countries and some developing countries didn't impose any relaxation on their restrictions on airline operations. It caused a serious effect on the survival of the airline sector.

- ***Public perception on travelling***

- ***Global Economy slowdown***

4. SECTORS AND COMPANY TYPES OPERATE WITHIN THE TRAVEL INDUSTRY

4.1 Transportation

For many people, when they think of the travel industry, they immediately think about transportation and the companies that offer transport services. In reality, this is only one sector of the travel industry, but it is perhaps the single most important, as it centres around actually facilitating travel from one location to another. Included within this are road, rail, air and water transportation services, as outlined below: **Airline Industry**

The airline industry provides various forms of air travel, including commercial and chartered flights. These flights can be overseas or domestic and can cater for relatively short distances, right through to trips to the other side of the world. Different airlines tend to serve specific regions and airports.

- ***Car Rental***

Car rental plays a key role in the travel industry, dealing with the provision of temporary access to cars and other similar vehicles.

- ***Water Transport***

Water transport refers to any transport that moves people across the water, including rivers, lakes, canals and oceans. Examples of some of the forms of transport that are included within this category are ocean liners and ferries.

- ***Coach Services***

In many cases, travellers opt to use coach services to travel to their chosen location and this is often more cost-effective than the main alternatives.

- ***Railway***

Railways are one of the main ways that people travel domestically, while many rail services also facilitate long-distance international travel too.

- ***Spacecraft***

Finally, one of the emerging sub-sections of the transport category of the travel industry relates to spacecraft and commercial space flight. Virgin Galactic is the most well-known example here, with the company aiming to provide space tourism services in the near future, allowing customers to travel to outer space.

4.2 Accommodation

Another vital sector within the travel industry is the accommodation sector. After all, most long-distance travellers will require somewhere to stay overnight.

- **Hotels**

The hotel industry and the travel industry are closely linked, with hotels being the most popular form of accommodation for those travelling to a different location and staying overnight.

- **Shared Accommodation**

Shared accommodation has emerged as an increasingly popular option for travellers. Through these platforms, guests can find homestay offerings. This may mean having access to a private room in an occupied house or may mean having access to a room that is shared with other guests.

- **Hostels**

A form of sociable accommodation, hostels provide dorm rooms with multiple beds, and guests effectively pay for a bed, rather than a private room.

- **Camping**

Considered a form of outdoor accommodation, camping involves staying overnight in basic shelters, such as a tent.

- **Bed and Breakfast**

A bed and breakfast are similar to a hotel, in the sense that guests are provided with a private room for overnight stays.

- **Cruises**

Aside from being classed as a form of transportation, cruises are also a type of accommodation in of themselves. After all, guests on cruises will spend the majority of their time on the cruise ship and will usually be allocated a cabin aboard the ship, where they can relax and sleep.

- **Farmhouse Accommodation and Agri-Tourism**

Agri-tourism is a niche industry, which is becoming increasingly popular, with people wishing to get away from their usual environment, spend time on a farm, see the day-to-day activities and perhaps even take part themselves.

- **Time-Share Accommodation**

Time-share accommodation refers to a property, such as a condo or a holiday home, which is shared between multiple different owners.

4.3 Food and Beverage

The food and beverage sector primarily caters for the basic needs of travellers, through the provision of food and drinks services. However, it is essential to understand that businesses and services in this category go beyond this primary purpose. Indeed, a huge part of the food and beverage sector is also based on providing travellers with places to go to relax, enjoy themselves and/or socialise with other people.

- **Restaurants**

Restaurants exist to allow people to enjoy meals that are prepared for them. There are a wide range of restaurant types, from fast-food chains, through to luxury or family restaurants, all catering for different needs and tastes.

- **Catering**

Catering tends to refer to the provision of food and drinks in locations that are more remote or self-contained, with examples of this including entertainment venues, tourist attractions and parks. In addition, catering services are provided on many forms of transport, including aeroplanes, trains and ferries.

- **Nightclubs**

A nightclub is an entertainment venue, which operates until late at night and places an emphasis on both music and alcohol consumption. Common features include a bar, a stage for live performances, and a dance floor.

- **Bars & Cafés**

For travellers, bars and cafés provide a means to enjoy food and drink on a more casual basis than with restaurants and nightclubs.

4.4 Entertainment

The entertainment sector plays an interesting and complex role in the travel industry. After all, entertainment sites can sometimes be the single biggest factor attracting travellers to a particular part of the world.

- **Casino**

Casinos are establishments which provide gambling activities, with examples including card games, dice games and a variety of other luck or skill-based games. In many cases, casinos also offer additional entertainment and they are sometimes connected to hotels or resorts, especially in locations like Las Vegas and Monte Carlo.

- **Tourist Information**

Tourist information services provide travellers with information about tourist sites and activities they can engage in. There are both offline and online services, with examples of offline tourist information including tourist information offices and tourism literature, while online sources consist of informational websites.

- **Shopping**

Shopping is another crucial part of the travel industry, catering to both basic needs and travellers' desires for luxury items or consumer products. Within this category are supermarkets, shopping centres and local markets, while duty-free goods are sold at airports and in certain other locations.

- **Tourist Guides & Tours**

Through the provision of organised tours, tourist guides are able to assist travellers with sightseeing and other tour-related activities.

4.5 Connected Industries

Finally, there are a range of industries or sub-sectors which are broadly linked to the travel industry. These related industries may offer products or services to travellers before they actually depart on their travels, or may operate to try to promote or improve the travel industry itself. They include both online and offline services, with some of the most significant related industries outlined in more detail below:

- **Financial Services**

There are a number of financial service providers that fall within the travel industry umbrella. Perhaps the most obvious examples that would come under this definition are travel insurance, trip protection insurance, and travel medical plans, along with services related to currency conversion.

- **Travel Agents**

Put simply, travel agents are retailers that provide travel and tourism products, and serve as intermediaries for travellers and suppliers.

- **Tour Operators**

A tour operator will typically provide travellers with package holiday products, which combine travel and tour components.

- **Online Travel Agencies (OTAs)**

Online travel agencies, or OTAs, provide similar services to traditional travel agents, albeit through a website or web app. One of the key differences between OTAs and classic travel agents, however, is the emphasis that OTAs place on self-service, with the website or app connecting users with the travel products they are looking for.

- **Tourism Organisations**

Tourism organisations are organisations that are actively involved in promoting the tourism industry and its interests.

- **Educational**

Last but not least, educational sub-section is one of the fastest-growing components of the travel industry. An increasing number of people travel to business conferences, exhibitions, training sessions or academic institutions, and businesses in this sub-section provide these services and cater to travellers' needs along the way.

5. Conclusion

This study focuses on bankrupted airline companies, factors for their financial distress and their impact on the related industries. This study assesses the bankruptcy of airline sector during pandemic in various dimensions. Though it looks like, only a particular industry had faced difficulties in survival, there are lot of related industries like Transportation, Accommodation, Food and Beverage, Entertainment, and Connected Industries.

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