ABSTRACT

This paper uses longitudinal data from the US airline industry to investigates the impact of various service failures on financial performance between firms pursuing different business strategies (revenue-driven versus cost-driven). We also compare the overall effect of service failures on airline profitability. Service failures examined in this study include airline flight delays, mishandled baggage, involuntary denied boarding, and customer complaints. Neural network modeling and multivariate regression analysis are employed to address the research questions. We find for airlines pursuing a revenue-driven or differentiation strategy, on-time performance (flight delays) is significantly related to profitability, while for airlines pursuing a low-cost strategy, customer complaints are significant and negatively related to profitability. We also show that the overall impact of measures of service failures on airline’s profitability is not significantly different. Our findings provide empirical support for the notion of “equifinality” in the context of service failures; where the overall percentage impact of service failures on profitability is similar for the two business strategies, despite the fact that various types of service failures influence profitability differently between groups. These results provide significant contributions to the existing body of knowledge in service quality and operations strategy. The implications of the research for practice and future research have been outlined.

KEYWORDS: Service Failures, Service Quality; Business Strategy; Firm Performance; Airline Industry