Airline Bankruptcy: The Determining Factors Leading to an Airline's Decline

Jason Tolkin, Claremont McKenna College

Graduation Year
Fall 2010

Document Type
Open Access Senior Thesis

Degree Name
Bachelor of Arts

Department
Economics-Accounting

Reader 1
Marc Massoud

Abstract
The purpose of this study was to determine what the critical factors are to an airline's financial turmoil, leading ultimately to a bankruptcy filing. Over the past decade, the airline industries' performance has been dismal, leading to 20 bankruptcy filings. As competition increases, it is crucial for airlines to know which core business areas are essential to success. This paper identifies 8 specific industry metrics that are used to compare airlines, revealing where certain airlines falter and others shine. Some of these metrics are later applied to a case study examining Trans World Airlines (TWA) and American Airlines (AA), highlighting the factors leading to TWA's bankruptcy filing during the same time period American Airlines remained profitable. The results show that the labor inefficiency, operating inefficiencies, unsuccessful fuel hedging programs, and high long-term debt are critical factors leading to an airlines bankruptcy. Four recommendations for airlines are provided, namely: 1.) The cross-utilization of employees, 2.) Maintain Cost Discipline, 3.) Focus on Breakeven Load Factor, and 4.) Do not neglect the intangibles such as brand reputation.

Recommended Citation
https://scholarship.claremont.edu/cmc_theses/88

Given both the rarity of airline bankruptcies and the extremely low number of affected passengers, a fund would be regulatory overreach. It would create unjustified burdens on the industry and passengers for benefits that would go to an exceedingly small portion of passengers. Moreover, such a fund would draw its resources from a levy on all tickets sold.