

EFFECT OF WEATHER DELAYS ON SHAREHOLDER VALUE: EVIDENCE FROM THE AIRLINE INDUSTRY

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ABSTRACT

Airlines measure service quality based on different factors such as on-time performance, delays and cancellations, mishandled baggage and denied boardings. Among the above factors, recent studies show that long delays and cancellations have a major impact on airlines bottom line not only in terms of current costs but also in terms of loss of future revenue. Finance literature tells us that stock prices reflect the present value of future cash flows. In this paper we use event study methodology to examine how weather delay and cancellations affect current stock market returns for our sample airlines. We find some evidence that airline stocks are adversely affected by weather delays only when the delays are significant and widespread or persistent over a longer period. However the results are not significant and show that currently the stock market is not penalizing airlines for delays and there is no significant loss in the value for these firms.

Keywords: *Airline Service Quality, Event Study, Airline Industry, Stock Returns.*