

**FASTEN YOUR SEATBELTS: CASH AND ACCRUAL-BASED DETERMINANTS OF EUROPEAN AND U.S. OPERATING INCOME**

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**ABSTRACT**

*The commercial passenger airline sectors in both Europe and the U.S. are highly comparable and provide fertile ground for comparative research. The sectors in both regions are perilously exposed to a litany of extraneous demand shocks including, but not limited to, widely fluctuating fuel costs, worldwide contagions, and terrorist incidents. More recent problems include problematic personnel shortages aggravated by a notable uptick in post-covid demand for air travel. Such risk-related variables are starkly contrasted against a high demand for both solvency and liquidity in this sector to fund a plethora of short-term and long-term costs. In this context, empirical research developing an understanding of the determinants of commercial airline operating income becomes a financial and operational imperative, coupled with a catalyst to future growth and long-term sustainability. This research paper analyzed and contrasted both cash and accrual-based determinant constructs on airline operating income, operationalized as market capitalization, operating cash flows, and total assets as a proxy for firm size. We note a statistically significant association between these determinant variables operationalizing the respective latent constructs and airline operating income as well as a statistically significant difference between the two regions. This study extends the literature in this area, furthers our knowledge with respect to operating income determinants in this sector, and is both necessary and opportune as commercial airlines in both regions face continuing supply-side issues and safety concerns, to name just a few.*

**Keywords:** *Commercial Airlines, Operating Income, Cash Flows, Market Valuation, Total Assets*

**1. INTRODUCTION**

The allure of commercial airline travel and indeed this sector is one that evokes feelings of adventure and excitement. It is certainly not a stretch to note that air travel could be considered one of the greatest achievements of all time, making the world and its peoples more accessible to each other, and drastically reducing the time it takes to ship and deliver people and cargo around the globe (Bartle et al., 2021). Suffice it to say that the airline industry is an extremely capially intensive one (Capobianco & Fernandes, 2004) when one considers the surfeit of costs associated with such an enterprise.

Over the decades, the commercial airline industry has evolved from its humble beginnings into an extremely sophisticated logistical, operational and financial enterprise (Lohmann & Koo, 2013). Such sophistication and intricacy creates a sustained exigent demand for an accurate and current understanding of all aspects of this sector, especially in consideration of the pace of change and the ever-present risk of financial and operational perils that abound in this sector (Berghöfer & Lucey, 2014), including a keen understanding of what drives operating income for this sector (Alan & Lapré, 2018; Kalpana & Muthusamy, 2019).

In present times, commercial airlines in Europe and the U.S. continue to face an excess of problems and struggles. For example, it is noted by Bouwer et al. (2021) that the commercial airline industry in 2020 jointly issued approximately \$180B in debt, with ongoing increases in debt ratios and levels. Increased debt is associated with increased operational and financial risk (Lee & Jang, 2007). Events in the middle