

Case Study: Dealing with Risk and Uncertainty in Delta Airline Company

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Introduction:

Risks usually include multiple threats that hinder companies from achieving their financial and progress targets. At the same time, such situations where these risks and their respective accumulative effect becomes unmeasurable or unforeseen are termed uncertainties (Sharma et al., 2020). Ignoring such risk and uncertainty situations may lead to fatal consequences in the vicinity of business progress. However, to meet such complexities, comprehensive strategies are in dire need in an integrated way. For this purpose, it is pertinent to address multiple factors behind such a debacle in business management practices. Various factors, i.e., internal and external, contribute to these risks and uncertain situations like competitors, alteration in public policies, fluctuation of raw material prices and financial shortcomings. In this case study, the company chosen to explore such dealings is Delta Airlines Company. The specific risk the company has faced recently is cancelling and delaying flights at an unacceptable rate (Bloomberg, 2022). So this case study will elaborate on the current line of action of Delta Airlines Company with improvement recommendations to cope with delayed or cancelled flight operations like minimizing negative impacts, dealing with moral hazard problems, improving profitability, aligning incentive plans, and changing organizational structures.

Delta Airlines Company and Current Situation:

Based in Atlanta, Georgia., with its headquarters, [Delta Air Lines](#) is one of the world's largest airlines. The delayed and cancelled flights and pilot-labour concerns discussed in this case relate to the 2022 operating environment and should not be presented as the airline's current condition. In terms of profitability and achieving progress goals, the industry faces acute complex losses, and the company has severe uncertainty to bow to the ground in a brief period. Undoubtedly, the industry players are struggling to fetch the airline industry from this chaos, leading to complicated situations. In this context, Delta Airlines Company has established the practice of working under the umbrella of the latest [risk management strategies](#). For this purpose, it is pertinent to elaborate on the current line of actions the company deters lateness of flights and cancellation debacle by adopting risk management strategies.

Delta Airline's Recent Actions Dealing with Risk and Uncertainty:

Delta Airlines is a mega budgetary company that provides its services to a huge chunk of customers by providing critical services. However, this airline has devised the implementation of multiple strategies to streamline the convenient flight operation according to the priority of the customer community around the globe. The primary approach is to detect measures necessary to mitigate and nullify the shadows of the distraction of flight operations that are being heated up with pilot strikes. In this context, the organization mainly focuses on evaluating the risk and proactively projecting the chances of these risk occurrences. So the company has to update its technological basis to evaluate and formulate risk-managing strategies concerning the airline industry efficiently.

Moreover, the company has the ability to quantify this particular risk by focusing on the trends in the market. In this regard, Delta Airlines has a competent functional committee that conducts business operations through brainstorming, conducting staff interviews and analyzing the opinions of all the concerned stakeholders. So that timely measures can be formulated, a respective mechanism is executed, and finally, a flight operation management cycle can be adopted. To achieve this purpose, the committee formulated proper practical procedures based on comprehensive business approaches to nullify delaying flight risk. Another strategy adopted by the company is to limit such flight cancellations by directing insurance organizations to nullify economic, technological and procedural drawbacks. This way, the company can assess this massive suspension of flight operations and its distraction by a third party.

Recommendation on how Delta Airlines can Improve in Risk Management:

Recommendations are mandatory to mitigate the risks before they tend to pass and devastate the profit foundations of any company. However, in the current case, such a precautionary option is unavailable as flight delaying, and distractions are currently prevailing. So Delta Airlines must update its technical basis, procedural protocols and formulation of multiple processes. Hence, web-oriented applications, monitoring of the company's processes, and educating and training employees are necessary measures. In addition, Delta Airlines should adopt ways to spread awareness and promote civic sense among customers, stakeholders and aligned masses to counter uncertain events before they occur (Kumar, 2019).

In this aspect, the company faced the main challenge regarding security concerns, especially security drills to evaluate preparation in any chaotic or emergency situation as it has occurred in present flight mismanagement. So these drills must be prioritized by allocating sufficient funds to lessen the chances of any discrepancy in the hour of massive rush of customers or strike of any union. In

addition, the company should devise a comprehensive mechanism to execute a timely response in case of any delay or cancellation with solid reason to satisfy the customer community. In this context, the colossal techniques may revolve around analytical techniques focusing on accuracy and precision of adopted technological tools. So effective risk management can only be practised by relying upon objectives to estimate contributing causes and uprooting their effects. The company should have a risk management department with clear roles and duties to achieve these objectives, guaranteeing customer satisfaction at any cost.

An Adverse Selection Problem that Delta Airlines is Facing:

The adverse problem Delta Airlines is currently facing relates to the information management system between passengers and the company concerning delaying and cancellation of flights. The company authorities mainly collect asymmetric information, which ultimately leads towards a negative image of the company, especially on moral grounds. In modern times, rival firms are adorned with specialized customer resource management systems that allow for conducting passenger data, analyzing it and devising operation models (Tavassoli, et al., 2020). However, Delta Airlines lacks an adequate system that provides information concerning travel habits, travelling demands, spending capacity, passengers' details, and travel frequency. Such deficiency of comprehensive data produces immense problems for the company, especially during flight diversion and route-changing needs. Due to this lack, multiple passengers are not taken on board in rote diversion, and passengers face trouble.

How Delta Airlines Should Minimize its Negative Impact on Transactions:

The best practice to minimize negative impacts on transactions is to formulate a system in which clients are not burdened with rescheduled flights. Rescheduled, delayed or cancelled flights need to refund the passengers due to uncomfortable facilities, and they tend to move towards another company for comfortable travelling. In this context, the most suitable practice is to develop a [customer service](#) data pool to estimate passenger demands. Further, the company should formulate ties and alliances with other players in the industry to automatically develop a partnership in case of flight rescheduling or diversion. In other words, joint business operations with collective profit sharing may ensure a lessened loss. These ways will automatically prove fruitful in improving customer satisfaction, and ultimately the cut on transactions will be reduced.

The Ways Delta Airline is Dealing with the Moral Hazard Problem:

The moral hazards may arise with Delta Airlines in case of partnership or alliance with a third party in the context of uncertain events, as happened recently. While sharing information with third parties like insurance companies through a systematized information system may raise the risk of sensitive information leakage. Such leaking of customers' sensitive information may lead to uncertainties on the part of customers. So Delta Airlines should devise such a mechanism to put an equal burden of data privacy on third parties through a collaborative system of information sharing. In this way, the company has complete freedom to cherish confident operation without any risk or uncertainty situation. The company would be in a better position to secure the customers' end, own credibility and third party's trust from identification to complete service facilities. At the same time, it would become the responsibility of insurance firms to devise systematic information places instead of asymmetric data clouds.

The Suggested Best Practices Used in the Industry to Deal with the Hazard:

All the stakeholders in the industry are well aware of the impacts of moral hazard, and to nip this evil, the main focus lies on third parties for having asymmetric information systems. This menace spoils the whole process, and the best practice is the usage of incentives as a tool for third parties to ensure risk-averse transactions (Bonacchi, et al., 2019). To gain the incentives properly, the third parties become bound to adopt a symmetric information system which finally proved beneficial for timely operations and proper function of company departments. Another tool is the tournaments concerning the economic value of companies' efforts to judge performance. Moreover, a hierarchical assessment of the respective company to boost or hinder the operations in the airline industry is also used.

A principal-agent problem in Delta Airlines:

In Delta Airlines, the principle agent relationship has become a monstrous problem because agents have relevant information about passenger insights, but this information is asymmetric. Due to the lack of a symmetrical information setup, the company will eventually get involved in adverse selection and moral hazards especially leaving a lasting impact on decision-making. It becomes difficult to estimate whether the company's interest aligns with the agent's (Pietreanu et al., 2020). Eventually, the issue harms the assessment of passengers by the company, company operations, mutual cooperation and incentive plan, especially where the agent misleads the company management. Such practices negatively impact the company's transactions in alliance with adverse selection.

The Tools Delta Airlines Uses to Align Incentives and Improve Profitability:

Delta Airlines uses multiple tools to align incentives and profit improvement. The first one is the usage of up-to-date technical aspects that align the relationship between agent and principal. So main incentive is an easy mechanism by reducing various steps. This way, the agent's benefits would not be compromised, and profit would increase. Another tool is applying a functional control system to promote innovative AI steps instead of lengthy procedures (Bonacchi, 2019). Similarly, the company has developed and set attainable goals concerning bonuses which ultimately affect final compensation.

The organizational structure of Delta Airlines:

The organizational structure adopted by Delta Airlines is a functional one fashioned from top to bottom, with a company Chairman at the highest position. The Chairman is accompanied by the CEO, who has two subordinates in the director position. CEO is the actual functional chief having subordinates entitled as director of legal affairs, director of communication, director of marketing, director of corporate affairs and director of finance. Every executive post officer has a list of subordinates with branch organs to accomplish goals. In addition, various executive positions were also created by the management, primarily related to planning, sales, linkage development and operation managers. The structure provides a clear picture that the executive has complete control, and communication mostly flows from top to bottom according to decisions taken by the top leadership.

The Suggested Ways, the Organizational Structure of Delta Airlines, can be Changed to Improve the Overall Profitability:

The structural paradigm deficient of collaboration urges customers to move from department to department for information whenever flight operations are mismanaged or mishandled. It evokes mounting frustration among customers. So to optimize profitability, the company should alter its structure on lines of business approaches (Hortaçsu et al., 2021). In this context, the structure should revolve around the profit goals. Delta Airlines may alter it by merging departments according to a function-oriented approach with the top priority of customer satisfaction. It must be ensured that a systematic information pool should become a pivotal factor in the flow of communication properly through the company.

Conclusion:

Delta Airlines is an American-based company with worldwide services and has recently undergone the risk of flight delaying and cancellation. Various factors are responsible for such an uncertain situation, including financial issues, policies, competitors, raw material prices, etc. But the main problem and challenge is the asymmetric information system that creates moral hazards, adverse selection and hostile transactions impact. To improve profitability, Delta Airlines has to adopt some recommendations, including adopting up-to-date technology, improving organizational structure, and devising incentive plans and operational strategies to relinquish moral hazards.

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