

# **OPERATIONAL EFFICIENCY, SERVICE QUALITY, AND FIRM PERFORMANCE: EMPIRICAL EVIDENCE FROM THE US AIRLINE INDUSTRY**

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## **ABSTRACT**

This paper examines the relationship between operational efficiency and service quality and their impact on profitability with reference to a firm's competitive strategy. More specifically, we examine 1) whether the impact of operational efficiency and service quality on profitability is contingent upon a firm's competitive strategy, and 2) whether the trade-off between operational efficiency and service quality is contingent upon a firm's competitive strategy. Our empirical findings provide some support for the existence of a trade-off between operational efficiency and service quality, suggesting that these dimensions of competitive priorities are not compatible, and airlines need to emphasize one competitive priority depending upon their competitive strategy. We also show that a firm's competitive strategy has a significant impact on the relationship between operational efficiency, service quality, and profitability, where the trade-off between operational efficiency and service quality is more pronounced for the focused airlines.

**Keywords:** Operational Efficiency; Service Quality; Business Strategy; Profitability