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INTEGRATION PLAN OF PELITA AIR INTO GARUDA INDONESIA: OPERATIONAL SYNERGY, FINANCIAL RECOVERY AND SUSTAINABLE COMPETITIVE ADVANTAGE

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ABSTRACT

The integration plan of Pelita Air into Garuda Indonesia Group emerges as a strategic response to prolonged financial distress in Indonesia's aviation sector. Garuda Indonesia and its subsidiaries have faced significant financial challenges, requiring restructuring and strategic renewal. The integration of Pelita Air is projected to strengthen group synergy, optimize resources, and enhance competitiveness. This study aims to analyze how financial restructuring and strategic capability integration can transform crisis into sustainable advantage. A qualitative approach is employed, using case study analysis, financial reports, and industry benchmarking to evaluate the integration roadmap. Findings suggest that aligning financial recovery with strategic initiatives such as governance reform, digital innovation, and operational efficiency creates resilience and long term value. The study proposes a phased integration strategy, stronger alliance management, and customer centric innovation to ensure sustainable growth. As the integration remains a plan, outcomes are prospective and subject to external factors such as regulatory approval, market volatility, and execution risks. Ultimately, this research contributes to the discourse on airline restructuring in emerging economies, positioning financial recovery not merely as survival, but as a catalyst for sustainable competitive advantage.

INTRODUCTION

The aviation industry plays a critical role in supporting economic growth, regional connectivity, tourism development, and international trade, particularly in archipelagic countries such as Indonesia. Nevertheless, the airline industry operates under challenging economic and competitive conditions characterized by high fixed costs, substantial capital requirements, volatile fuel prices, aircraft maintenance obligations, and sensitivity to changes in passenger demand. These characteristics make financial resilience and operational efficiency essential for long-term business sustainability. Moreover, airlines must continuously adapt their business models to changing market conditions while balancing cost control, service quality, network

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development, and profitability. From a strategic management perspective, corporate consolidation has emerged as one potential mechanism through which airlines seek to strengthen their competitive positions, achieve economies of scale, and improve resource utilization. However, the relationship between consolidation and improved performance is not automatic. Research by Khezrimotlagh et al. (2022), demonstrates that the efficiency of merged airlines can improve after consolidation, although the magnitude of improvement differs according to airline business models and operational characteristics. Similarly, research on airline merger synergies by Gudmundsson et al. (2015) examines how cost and revenue benefits develop across different geographical markets, highlighting the importance of evaluating the actual realization of synergies rather than assuming that organizational consolidation will necessarily create value. These findings provide a relevant foundation for examining the proposed integration of Pelita Air into Garuda Indonesia Group as a strategic initiative aimed at strengthening Indonesia's state-owned aviation ecosystem.

The strategic importance of airline consolidation is particularly evident in Indonesia, where air transportation serves as a major infrastructure component connecting geographically dispersed islands, economic centers, and tourism destinations. The government has explored the consolidation of state-owned airlines as part of a broader effort to improve efficiency, coordinate resources, and strengthen the competitiveness of national aviation businesses. The proposed integration of Pelita Air into Garuda Indonesia Group reflects this strategic direction. In September 2025, The potential merger was being considered within the broader restructuring of state-owned enterprises, including the objective of improving airline competitiveness and allowing Pertamina to refocus on its core energy business (Karyza, 2025). The plan also reflects an intention to establish a more coordinated aviation portfolio comprising Garuda Indonesia, Citilink, and Pelita Air, with differentiated market positioning and potentially complementary operational capabilities. Government states that Garuda Indonesia as serving the premium segment, Pelita Air as targeting the medium-service or premium-economy segment, and Citilink as focusing on the economy segment (ANTARA News, 2025).

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Such differentiation could provide a basis for coordinating capacity, pricing, network development, and customer services across the group. However, the strategic rationale must be distinguished from the transaction's actual status. As of October 2026, the proposed integration had not been completed, and the transaction structure remained under review. The integration should therefore be analyzed as a prospective strategic restructuring initiative whose potential benefits, limitations, and implementation requirements require systematic evaluation rather than as an accomplished corporate merger.

The proposed integration also needs to be understood in the context of Garuda Indonesia's financial restructuring and continuing efforts to strengthen its financial position. Financial distress represents a significant strategic challenge because it can restrict access to capital, constrain investment decisions, weaken operational flexibility, and limit an organization's ability to respond to competitive pressures. In capital-intensive industries such as aviation, these constraints are particularly consequential because aircraft acquisition, maintenance, workforce development, and network operations require substantial and continuing financial commitments. Palacín-Sánchez et al. (2023), emphasize the importance of examining recovery strategies dynamically, taking into account the development of financial difficulties and the measures required to resolve them. This perspective suggests that corporate recovery should not be evaluated solely through short-term improvements in earnings but also through the sustainability of liquidity, capital structure, operating performance, and organizational capabilities. Garuda Indonesia's restructuring experience illustrates the distinction between operational recovery and comprehensive financial rehabilitation. The company's published financial statements and annual reports provide important evidence for assessing its financial condition, restructuring measures, and continuing operational priorities (PT Garuda Indonesia (Persero) Tbk, 2025). Although improvements in operating performance can support recovery, persistent financial obligations and balance-sheet pressures may continue to influence strategic decisions and the company's capacity to invest in future growth. Consequently, the integration of Pelita Air may be relevant as part of

a broader strategic response, but its effectiveness must be evaluated in relation to Garuda Indonesia's existing financial commitments, the proposed allocation of resources and liabilities, and the financial viability of the resulting corporate structure.

A central issue in this context is whether integration can create substantive economic value or merely redistribute existing financial and operational pressures across affiliated companies. Corporate consolidation may enable shared procurement, coordinated maintenance, improved aircraft utilization, and more efficient network planning. Nevertheless, the financial benefits of these measures depend on implementation costs, operational compatibility, governance arrangements, and the ability to translate efficiency improvements into stronger cash flows. Khezrimotlagh et al. (2022) provide evidence that airline mergers can be associated with improvements in overall efficiency and productivity, but their findings also indicate that results differ between network carriers and low-cost carriers. This distinction is relevant to the Garuda Indonesia Group because the airlines' different service propositions and operating models may influence the extent to which their activities can be integrated effectively. Furthermore, Gudmundsson et al. (2015) show that the realization of cost and revenue synergies following airline mergers can develop over time, suggesting that integration benefits should be evaluated across multiple periods rather than assumed to materialize immediately. These findings imply that a financial recovery strategy based on integration should establish measurable targets for cost reduction, revenue improvement, liquidity management, and asset utilization. It should also assess whether potential synergies outweigh the financial and organizational costs associated with implementation. Accordingly, the integration of Pelita Air should be viewed as a strategic opportunity that requires rigorous financial evaluation, rather than as an automatic remedy for Garuda Indonesia's financial distress.

Pelita Air represents a potentially important strategic resource within the proposed consolidation of Indonesia's state-owned aviation businesses. The airline, which developed from an aviation-services business associated with Pertamina, has

expanded into scheduled commercial passenger services while retaining a broader aviation-services background. Its commercial operations provide a potential platform for expanding domestic connectivity and serving market segments that differ from Garuda Indonesia's traditional full-service positioning. Pelita Air's 2024 Annual Report identifies operational performance, business development, and the government's proposed consolidation of state-owned airlines as relevant elements of its business environment (PT Pelita Air Service, 2025). From a strategic perspective, Pelita Air's value should not be assessed solely through its current financial contribution but also through the resources, capabilities, and market opportunities it could contribute to a coordinated airline group. These may include its domestic route portfolio, operational experience, customer base, aircraft deployment, and opportunities for complementary network development. However, the precise value of these resources must be established through company-level financial and operational analysis rather than inferred from the proposed transaction alone. An effective integration plan would therefore need to identify the resources that can be shared, the activities that can be coordinated, and the capabilities that should remain distinct to preserve each airline's market identity. This approach is consistent with the Resource-Based View (RBV), which explains how differences in firms' resource portfolios can contribute to differences in competitive performance (Barney, 1991). Under this perspective, the strategic opportunity lies in combining complementary resources in ways that create value beyond what each airline could achieve independently, while ensuring that the costs and complexities of integration do not offset the expected benefits.

The Resource-Based View provides the first theoretical foundation for evaluating how the proposed integration could contribute to sustainable competitive advantage. Barney (1991) explains that a firm's resource endowment can support sustained competitive advantage when resources are valuable, rare, imperfectly imitable, and non-substitutable. Although this framework was originally developed to explain competitive differences between firms, it also offers a useful analytical perspective for examining corporate integration. In the context of Garuda Indonesia

Group, the relevant question is whether the combination of the participating airlines' resources can create a strategically distinctive capability that would be difficult to reproduce through independent operations or alternative partnerships. Potential areas of complementarity include route connectivity, customer access, brand portfolios, operational knowledge, procurement relationships, and distribution capabilities. Nevertheless, resource aggregation alone is insufficient. If the participating airlines possess overlapping resources but lack effective coordination, consolidation could increase organizational complexity without generating substantial economic benefits. The RBV therefore directs attention to the quality of the combined resource portfolio and the mechanisms through which those resources generate value. Applied to this case, the framework can help identify which resources should be integrated, which should remain differentiated, and which organizational conditions are necessary to transform complementary assets into superior performance. This provides a theoretical basis for investigating the relationship between corporate integration, resource optimization, and the potential development of sustainable competitive advantage in Indonesia's state-owned aviation sector.

While the RBV explains the strategic importance of resources, the Dynamic Capabilities framework provides a complementary explanation of how organizations adapt and reconfigure those resources under changing conditions. Teece et al. (1997) argue that competitive advantage depends not only on asset ownership but also on organizational processes for coordinating, combining, and reconfiguring competencies in response to changes in the business environment. This distinction is particularly relevant to airline integration because market demand, fuel prices, aircraft availability, regulatory requirements, and competitive conditions can change rapidly. The proposed consolidation would therefore require management to develop capabilities for identifying operational inefficiencies, prioritizing investment, coordinating route decisions, and adapting service offerings to evolving customer needs. It would also require the organization to manage the transition between existing operating arrangements and a more integrated group

structure without compromising safety, reliability, or service quality.

Although airline mergers and acquisitions have been widely examined in international research, important questions remain regarding how integration can contribute simultaneously to financial recovery and sustainable competitive advantage in state-owned airlines experiencing financial pressure. Existing empirical studies have examined post-merger productivity, operational efficiency, and the realization of cost and revenue synergies (Gudmundsson et al., 2015; Khezrimotlagh et al., 2022). These studies provide valuable insights into the possible economic benefits of airline consolidation. However, operational efficiency and financial recovery are not equivalent to sustainable competitive advantage. An airline may improve its aircraft utilization or reduce operating costs without necessarily developing the distinctive resources, organizational capabilities, or market positioning required to maintain superior performance over time. Similarly, an organization may possess valuable assets but fail to exploit them because of ineffective governance, inadequate coordination, or difficulties in implementing strategic change. The combination of the RBV and Dynamic Capabilities framework therefore offers an opportunity to examine the relationship between resource complementarity, organizational adaptation, financial restructuring, and long-term competitiveness within a single analytical framework. In the context of the proposed Pelita Air–Garuda Indonesia integration, this relationship is particularly relevant because the transaction's final structure and implementation timetable remain unsettled. The research gap should consequently be understood as a case-specific analytical gap rather than a claim that international scholarship has ignored airline consolidation or financial distress. By examining how the two theoretical perspectives can be applied to this proposed integration, the study seeks to explain the conditions under which consolidation may support financial recovery and develop a more sustainable competitive position.

A further issue concerns the institutional and organizational context of state-owned enterprises. Unlike many privately controlled airline groups, state-owned aviation businesses must reconcile commercial performance with broader public-

policy objectives, including national connectivity, service accessibility, employment considerations, and the responsible management of public assets. These objectives may create tensions when management must choose between commercially profitable routes and services that serve wider national interests. The integration of Pelita Air into Garuda Indonesia Group therefore requires an assessment of how corporate governance, stakeholder interests, and strategic accountability influence the realization of potential synergies. In particular, a successful integration plan would need to clarify the allocation of assets and liabilities, the authority of group management, the strategic responsibilities of each airline, and the performance indicators used to evaluate outcomes. It would also need to establish safeguards against inefficient resource allocation and the transfer of financial risks between participating entities without adequate assessment. The importance of these issues is reinforced by Garuda Indonesia's public disclosures in 2026, which indicated that the proposed consolidation remained under review and that its financial and operational implications had not yet been finalized (Saumi, 2026). Subsequent industry reporting also indicated that completion would be delayed beyond 2026 (ch-aviation, 2026). These developments make the case suitable for examining the strategic rationale and implementation requirements of a proposed integration while avoiding unsupported assumptions about realized outcomes. Accordingly, the central research problem is how the proposed integration can be designed to support financial recovery, capture operational synergies, preserve meaningful market differentiation, and develop the organizational capabilities required for sustainable competitive advantage.

Based on the preceding discussion, this study aims to analyze the proposed integration of Pelita Air into Garuda Indonesia Group as a strategic response to financial distress and a potential pathway toward sustainable competitive advantage. Specifically, the study seeks to examine the financial and operational challenges that motivate the proposed consolidation; identify complementary resources and potential sources of operational synergy between the participating airlines; evaluate how the Resource-Based View and Dynamic Capabilities

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framework can explain the relationship between integration and competitive advantage; and identify the governance arrangements, implementation risks, and performance indicators required to evaluate the initiative. The study also seeks to distinguish between short-term restructuring outcomes, such as operating cost reductions and improved asset utilization, and longer-term strategic outcomes, such as organizational resilience, stronger market positioning, and the development of capabilities that are difficult for competitors to replicate. T

hese objectives provide a basis for assessing integration as a strategic process rather than treating the completion of a corporate transaction as the principal measure of success. From a theoretical perspective, the study aims to connect the RBV's emphasis on resource characteristics with the Dynamic Capabilities framework's focus on organizational adaptation and resource reconfiguration. From a practical perspective, the analysis may provide insights for corporate management, policymakers, investors, and other stakeholders involved in restructuring state-owned aviation businesses. Given the proposed transaction's current status, the study focuses on strategic potential, implementation requirements, and anticipated outcomes rather than claiming to measure the actual post-merger performance of an integration that has not yet been completed.

Overall, the proposed integration of Pelita Air into Garuda Indonesia Group presents an important strategic question: can corporate consolidation become a mechanism for transforming financial vulnerability into organizational resilience and sustainable competitive advantage? The answer depends on more than the scale of the combined business or the number of aircraft under common ownership. It requires an effective combination of financial discipline, resource optimization, market differentiation, operational coordination, and organizational adaptation. The RBV provides a basis for evaluating whether the participating airlines possess complementary resources that can create distinctive value, while the Dynamic Capabilities framework explains how those resources may be reconfigured to respond to changing market conditions. Evidence from international airline merger research suggests that consolidation can improve efficiency and generate cost and

revenue synergies, but the magnitude and sustainability of these benefits depend on the characteristics of the airlines and the effectiveness of implementation (Gudmundsson et al., 2015; Khezrimotlagh et al., 2022).

THEORETICAL REVIEW

Resource-Based View (RBV)

The Resource-Based View (RBV) provides a theoretical foundation for explaining how firms develop competitive advantage through the ownership, development, and utilization of strategic resources and capabilities. The central premise of RBV is that differences in firm performance can be explained, in part, by differences in the resources controlled by individual firms and their ability to deploy those resources effectively. Barney (1991) argues that resources can support sustained competitive advantage when they are valuable, rare, imperfectly imitable, and non-substitutable. Although this framework originated more than three decades ago, it remains a foundational perspective in strategic management. Contemporary strategic management literature also emphasizes the importance of aligning internal resources with organizational capabilities and competitive requirements (Hitt et al., 2020).

Resources may include physical assets, financial capital, human resources, technological infrastructure, organizational knowledge, brand reputation, and relationships with customers and business partners. However, the strategic value of resources does not depend solely on their availability. Rather, it depends on their contribution to value creation, their distinctiveness relative to competitors, and the organization's capacity to coordinate and exploit them. In capital-intensive industries such as aviation, aircraft, route networks, maintenance infrastructure, and distribution systems constitute important resources, but their possession does not automatically guarantee superior performance. These resources must be supported by effective operational processes, managerial expertise, and strategic coordination.

The VRIO framework, which evaluates whether resources are valuable, rare, difficult to imitate, and supported by the organization, provides a practical extension for assessing these potential advantages. For example, coordinated

procurement may generate cost savings, but such savings do not necessarily constitute a sustainable competitive advantage if competing airline groups can achieve similar results. In contrast, a combination of specialized operational knowledge, customer relationships, organizational routines, and effective network coordination may be more difficult to replicate when these elements are developed through accumulated experience and organizational learning. Consequently, the strategic contribution of integration depends on both the characteristics of the resources and the organizational arrangements through which they are deployed.

Resource complementarity is particularly relevant to the relationship between corporate integration and operational synergies. When two airlines possess overlapping resources, consolidation may create unnecessary duplication or additional coordination costs. Conversely, when their resources are complementary, integration may improve resource utilization and create opportunities for economies of scale or scope. Ma et al. (2023), in their examination of domestic airline mergers in China, identify potential scale and synergy effects associated with improved international competitiveness. Their findings support the relevance of resource coordination in airline consolidation, although the applicability of those findings to Indonesian state-owned airlines requires consideration of differences in market structure, regulation, and organizational context.

Dynamic Capabilities Theory

Dynamic Capabilities Theory explains how firms develop, coordinate, and reconfigure those resources in response to changing environmental conditions. Teece et al. (1997) established the foundational concept of dynamic capabilities by emphasizing the organization's ability to integrate, build, and reconfigure internal and external competencies. Teece (2007) subsequently elaborated this perspective through the concepts of sensing opportunities and threats, seizing opportunities through strategic commitments, and transforming or reconfiguring the organization's resource base. These processes are particularly relevant in industries characterized by technological change, demand uncertainty, and intense competition.

The aviation industry provides a suitable context for applying this framework because airlines operate under changing fuel prices, fluctuations in passenger demand, aircraft availability constraints, regulatory requirements, and evolving competitive conditions. Organizations must continuously assess market opportunities, allocate resources selectively, and adjust their operating arrangements to maintain financial and operational viability. Consequently, competitive advantage depends not only on the resources an airline possesses but also on its capacity to adapt those resources to changing conditions.

In the proposed Pelita Air–Garuda Indonesia integration, the sensing dimension concerns the ability to identify potential inefficiencies, complementary market opportunities, overlapping routes, and financial or operational risks. Management may need to determine whether specific routes can be coordinated more effectively, whether procurement activities can be consolidated, and whether different service propositions can be maintained within a more integrated group structure. The seizing dimension concerns the translation of these opportunities into strategic decisions, including capital allocation, implementation priorities, resource commitments, and the establishment of clear managerial responsibilities. The transforming dimension involves implementing changes to organizational structures, operating processes, information systems, resource allocation, and coordination mechanisms.

The effectiveness of these processes cannot be assumed merely because the participating airlines share ownership or are subject to common strategic direction. Integration may require substantial organizational adaptation, particularly when the participating airlines have different operating models, systems, organizational routines, and customer propositions. Zhang et al. (2023) examine the evolution of dynamic capabilities through organizational routines, entrepreneurship, and improvisational capabilities, providing a relevant perspective on how organizational adaptation develops through processes rather than through asset ownership alone. Bruyaka et al. (2024) also highlight the importance of defining and measuring dynamic capabilities carefully, which is particularly important when applying the

framework to an individual corporate restructuring case.

Dynamic capabilities are therefore relevant to the relationship between resource complementarity and the realization of operational synergies. Complementary resources may provide opportunities for improved performance, but management must possess the capacity to recognize these opportunities, select appropriate integration mechanisms, and adjust implementation when expected benefits do not materialize. For example, coordinated fleet deployment may improve utilization only if scheduling systems, maintenance requirements, operational constraints, and commercial priorities can be reconciled effectively. Similarly, centralized procurement may reduce costs only when contractual arrangements, supplier relationships, and purchasing requirements permit effective coordination.

The relationship between dynamic capabilities and integration effectiveness is also supported by research on airline mergers. González (2024) examines organizational disruption following mergers in the United States airline industry and identifies adverse effects on operating performance, demonstrating that consolidation can introduce implementation challenges. Such evidence reinforces the importance of organizational adaptation and careful sequencing during integration. A strategy that promises long-term efficiencies may nevertheless produce short-term disruption if operational changes are not adequately coordinated.

Financial Distress and Corporate Restructuring

Financial distress represents a condition in which an organization's financial position increasingly constrains its ability to meet obligations, maintain liquidity, and finance operating or investment requirements. It does not necessarily imply insolvency or bankruptcy, because a company may continue operating while experiencing substantial debt obligations, limited financial flexibility, or insufficient cash flow to support its strategic objectives. In capital-intensive industries such as aviation, these challenges are particularly consequential because airlines must continuously finance fuel, aircraft maintenance, airport services, personnel, and

other operating commitments while responding to uncertain passenger demand.

Corporate restructuring represents one potential response to financial distress. Restructuring may involve changes in debt arrangements, capital structure, asset ownership, operating processes, or organizational arrangements. Financial restructuring focuses on improving the sustainability of liabilities and financing obligations, whereas operational restructuring focuses on improving the efficiency and viability of the underlying business. These approaches may complement each other, but their outcomes should be assessed separately because operational improvements do not necessarily resolve an unsustainable debt structure, and financial restructuring does not automatically create a profitable operating model. Akbar et al. (2022) examine the relationship between financial distress, firm life-cycle stages, and corporate restructuring decisions. Their study provides a relevant foundation for understanding restructuring as a response to financial pressure, while recognizing that restructuring decisions depend on firm-specific conditions.

For the proposed integration of Pelita Air into Garuda Indonesia Group, this perspective suggests that the strategic rationale for consolidation should be assessed in relation to Garuda Indonesia's financial obligations, the financial position of the participating entities, and the expected economic contribution of integration. Financial recovery should not be evaluated exclusively through improvements in net income. A more comprehensive assessment requires consideration of liquidity, operating cash flow, leverage, profitability, and financial flexibility. Liquidity indicates the ability to meet short-term obligations, while leverage reflects the relationship between financial obligations and the company's capital or asset base. Operating cash flow provides evidence of the funds generated by ordinary business activities, whereas profitability measures indicate whether operations generate sufficient returns. Financial flexibility concerns the organization's capacity to finance necessary investment, respond to unexpected expenditure, and adapt to changes in market conditions.

The relationship between corporate integration and financial recovery is conditional because consolidation can generate both benefits and costs. Potential

benefits may arise from procurement coordination, reduced duplication, improved aircraft utilization, and more efficient network planning. However, integration may also require investment in information systems, organizational restructuring, employee coordination, and operational adjustments. The resulting financial impact therefore depends on whether the economic benefits exceed the costs and risks associated with implementation. Khezrimotlagh et al. (2022) examine the performance and productivity of merged U.S. airlines and identify improvements in overall efficiency, although the magnitude of improvement differs between network and low-cost carriers. Their findings suggest that airline consolidation may contribute to operational improvement but that the benefits depend on the characteristics of the participating airlines. Ma et al. (2023) similarly identify potential scale and synergy effects associated with airline mergers. However, the findings of González (2024) indicate that integration may also disrupt operating performance, demonstrating that anticipated savings cannot be treated as guaranteed financial benefits.

Merger Synergies and Operational Efficiency

Merger synergy refers to the additional economic value that may arise when organizations coordinate or combine resources and activities. In the airline industry, potential synergies include procurement efficiencies, coordinated maintenance, improved aircraft utilization, reduced duplication of administrative functions, network optimization, and more effective revenue management. The underlying premise is that selected activities may be performed more efficiently through coordinated group arrangements than through independent operations. Nevertheless, the existence of a merger or integration plan does not establish that these benefits will necessarily materialize.

Operational synergies may be classified into cost and revenue synergies. Cost synergies arise when coordination reduces expenditure without undermining essential operating requirements or service quality. Examples include joint procurement, improved maintenance planning, more efficient use of technical resources, and the consolidation of duplicated support functions. Revenue synergies

arise when coordination increases revenue-generating opportunities, for example through improved passenger connectivity, complementary route networks, coordinated distribution, or better capacity allocation across customer segments. Economies of scale and economies of scope provide further explanations for these potential benefits. Economies of scale occur when average costs decrease as the volume of an activity increases, while economies of scope arise when multiple activities can be performed more efficiently using shared resources. In airline integration, procurement may benefit from increased purchasing volumes, while coordinated networks and distribution systems may create opportunities to serve different passenger segments more effectively. However, these benefits depend on operational compatibility, market conditions, contractual arrangements, and the cost of implementation.

The relationship between integration and operational efficiency is supported by recent empirical studies. Khezrimotlagh et al. (2022) find improvements in overall efficiency among merged U.S. airlines, while Ma et al. (2023) identify potential scale and synergy effects associated with airline competitiveness. These findings provide a basis for examining whether resource coordination can generate measurable operational benefits. However, the results also require consideration of differences between airline business models and operating environments. González (2024) further demonstrates that mergers may disrupt operating performance, highlighting the possibility that integration costs or organizational difficulties may offset some anticipated benefits.

Operational efficiency should consequently be evaluated using indicators that reflect both resource utilization and service performance. Relevant measures may include cost per available seat kilometre, revenue per available seat kilometre, aircraft utilization, load factor, route-level contribution, maintenance turnaround, and operational reliability. These indicators should be interpreted using consistent definitions and comparable reporting periods. Differences in fleet composition, route structure, service offerings, and operating conditions may otherwise distort comparisons between airlines.

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Sustainable Competitive Advantage

Sustainable competitive advantage refers to an organization's ability to create value and maintain a distinctive competitive position through resources and capabilities that competitors cannot easily reproduce. Within RBV, the concept is associated with resources that are valuable, rare, difficult to imitate, and difficult to substitute (Barney, 1991). Contemporary strategic management literature emphasizes that competitive advantage depends not only on resource ownership but also on the organization's ability to deploy resources effectively and align them with market opportunities (Hitt et al., 2020). In the aviation industry, potential sources of competitive advantage include network connectivity, brand reputation, customer relationships, operational reliability, service differentiation, cost efficiency, and the capacity to adapt to changing passenger demand. The strategic importance of these resources varies according to the airline's business model. A full-service airline may compete through service quality, network connectivity, and premium offerings, while an airline with a more focused domestic proposition may emphasize accessibility, appropriate capacity, and operational efficiency. Accordingly, an integrated airline group may benefit from coordinating differentiated service propositions rather than standardizing all participating airlines into a single commercial model.

The proposed integration could potentially strengthen competitive positioning by improving network coordination, reducing avoidable operating costs, developing complementary customer offerings, and increasing organizational flexibility. Nevertheless, these opportunities do not automatically establish sustainable competitive advantage. Cost reductions may be temporary, market share may increase because of short-term pricing strategies, and operational practices may be replicated by competitors. A sustainable advantage requires evidence that the combined organization can deliver distinctive value consistently and that its underlying resources or capabilities are difficult to reproduce.

The relationship between financial recovery and sustainable competitive advantage must also be considered carefully. A stronger financial position may

improve the ability to invest in aircraft, technology, employees, service development, and market expansion. However, financial recovery alone does not guarantee a superior competitive position. The organization must use its improved financial flexibility to develop resources and capabilities that create distinctive value over time. Conversely, a firm may possess valuable resources but fail to maintain its competitive position if financial constraints prevent effective investment or if organizational processes cannot adapt to market changes. Dynamic capabilities complement this explanation by emphasizing the ability to renew and reconfigure resources in response to changing environmental conditions. The proposed integration would therefore need to establish mechanisms for evaluating market opportunities, reallocating resources, adjusting network strategies, and improving organizational processes. These mechanisms may support resilience and strategic adaptability, but their contribution to sustainable competitive advantage must be demonstrated through evidence of improved performance and distinctive organizational capabilities.

Corporate Governance and Integration Readiness

Corporate governance and implementation readiness are important contextual conditions influencing whether the proposed integration can generate its anticipated benefits. Corporate governance concerns the arrangements through which organizations are directed, monitored, and held accountable. In a corporate restructuring context, governance determines how strategic decisions are made, how resources are allocated, how risks are managed, and how performance is evaluated. These issues are particularly relevant to state-owned enterprises, where commercial objectives must be considered alongside public-policy responsibilities and the responsible management of public assets.

The proposed integration of Pelita Air into Garuda Indonesia Group raises questions concerning the allocation of assets and liabilities, the authority of group management, the responsibilities of each participating airline, and the treatment of existing contractual obligations. It also requires clarity regarding which activities should be centralized, which should be coordinated, and which should remain

under separate operational or commercial control. Without clear decision rights and accountability, integration may create duplicated responsibilities, conflicting priorities, or inefficient resource allocation.

Implementation readiness refers to the organizational, operational, financial, and managerial conditions required to execute an integration strategy effectively. These conditions include reliable baseline data, realistic financial assumptions, clear implementation responsibilities, compatible information systems, appropriate risk controls, and measurable integration milestones. An integration initiative may be strategically attractive in principle but fail to generate value if the organization lacks the capacity to implement the required changes. González (2024) provides relevant evidence that airline mergers can create organizational disruption and adversely affect operating performance. This finding reinforces the importance of managing implementation risks rather than assuming that coordination will automatically improve efficiency. For example, integrating information systems may improve coordination in the long term but create temporary operational risks if implementation is poorly sequenced. Similarly, centralizing procurement may reduce costs but could create difficulties if the participating airlines have incompatible contracts or operational requirements.

RESEARCH METHODS

The study employs a qualitative, explanatory single-case study design to examine the proposed integration of Pelita Air into Garuda Indonesia Group and its potential implications for financial recovery and sustainable competitive advantage. The case is bounded by the proposed corporate integration and the publicly documented strategic, financial, operational, and governance context of the two airlines, with particular attention to information available up to October 2026. A qualitative case-study design is appropriate because the research investigates a contemporary organizational process in its real-world institutional and industry context rather than estimating statistical relationships or claiming to measure post-integration effects (Creswell & Poth, 2024; Yin, 2018). Since the transaction had not been completed within the study period, the analysis evaluates documented

conditions, strategic proposals, and implementation requirements; it does not treat anticipated synergies as realized outcomes.

Data were obtained through documentary analysis of publicly accessible secondary sources. The document-selection protocol used purposive sampling based on five inclusion criteria: (1) direct relevance to Garuda Indonesia, Pelita Air, the proposed integration, airline restructuring, or the Indonesian aviation policy environment; (2) identifiable authorship or issuing institution; (3) traceable publication date and accessible original document or publication record; (4) substantive information on financial position, operations, corporate strategy, governance, regulation, or public-service responsibilities; and (5) publication within the 2022–October 2026 period, except for foundational theoretical works and earlier studies retained where necessary for conceptual or historical context. Priority was given to primary sources, including audited annual reports, financial statements, official company disclosures, government and regulatory publications, and formal policy documents. Reputable industry and business-news reports were used to establish reported developments and transaction status, while peer-reviewed journal articles and academic books supported theoretical interpretation and industry comparison. A source was excluded where its provenance could not be established, it merely repeated another report without adding evidence, or it did not materially address the research questions. The analysis records the source name, issuing institution or author, publication date, document type, relevant topic, and the claims or data extracted. No interview or internal company data are represented as having been collected.

Document analysis proceeded in sequential stages. First, the researchers familiarized themselves with each selected document and extracted relevant passages, reported figures, dates, and statements into an evidence matrix. Second, the material was coded using a theory-informed coding framework. The initial deductive codes were derived from the research objectives and theoretical framework: financial condition and restructuring; resource complementarity; cost and revenue synergies; operational efficiency; sensing, seizing, and transforming

capabilities; corporate governance; public-service obligations; implementation risks; and sustainable competitive advantage. Additional inductive codes were retained when recurring issues emerged from the documents and were not adequately represented by the initial framework. Third, related codes were grouped into analytical categories and compared across the two companies and across source types. Fourth, the categories were interpreted against the Resource-Based View and Dynamic Capabilities Theory, while distinguishing documented facts, reported claims, and the authors' strategic inferences. The coding process was documented through a source log, code definitions, extracted evidence, and a record of how evidence was assigned to analytical categories. This procedure follows the systematic thematic-analysis principles discussed by Braun and Clarke (2022).

Triangulation was conducted through source triangulation and data-type triangulation. Source triangulation involved comparing information about the same issue across independent and, where available, primary sources—for example, comparing financial figures in annual reports with company disclosures and relevant regulatory or industry reporting. Data-type triangulation involved examining whether financial evidence, operational indicators, corporate statements, regulatory material, and academic research supported, qualified, or contradicted a particular interpretation. For material claims, priority was given to audited or official primary documents; secondary reporting was used as corroboration or to identify developments not yet detailed in formal reports. Where sources differed in dates, definitions, accounting periods, or reported values, the discrepancy was retained as a limitation rather than silently reconciled. The study does not claim methodological triangulation through interviews or observation because these methods were not part of the data collection. Pattern matching was used to compare the observed documentary evidence with the theoretical expectations of RBV and Dynamic Capabilities Theory (Yin, 2018).

Financial indicators, including liquidity, leverage, profitability, and operating cash flow, were examined descriptively to complement the qualitative assessment of the companies' financial conditions and the potential economics of integration.

Operational indicators discussed in the analysis—including aircraft utilization, load factor, route contribution, maintenance turnaround, and schedule reliability—are treated as proposed measures unless an attributable source provides actual values. The study acknowledges limitations arising from reliance on public secondary data, differences in reporting practices and accounting periods, restricted access to route-level and contractual information, and uncertainty about the final transaction structure. Accordingly, the findings constitute a context-specific strategic assessment and a set of conditions for evaluating the proposed integration, not a statistical causal estimate or evidence of actual post-merger performance.

RESULTS AND DISCUSSION

Overview of the Proposed Integration and Its Strategic Status

Garuda Indonesia Group represents a potential strategic restructuring initiative intended to strengthen the coordination of Indonesia's state-owned aviation businesses. However, the potential benefits of the initiative must be evaluated in relation to its current implementation status, the financial conditions of the participating companies, and the organizational capabilities required to realize the anticipated synergies. The findings presented in this section are based on the theoretical framework, secondary-source evidence, and analytical propositions established in the research design. They distinguish documented developments from strategic opportunities that remain subject to further evaluation.

Garuda Indonesia Group represents a potential strategic restructuring initiative intended to strengthen the coordination of Indonesia's state-owned aviation businesses. However, the potential benefits of the initiative must be evaluated in relation to its current implementation status, the financial conditions of the participating companies, and the organizational capabilities required to realize the anticipated synergies. The findings presented in this section are based on the theoretical framework, secondary-source evidence, and analytical propositions established in the research design. They distinguish documented developments from strategic opportunities that remain subject to further evaluation. As of October 2026, the proposed consolidation had not been completed. Garuda Indonesia's

disclosures reported in July and August 2026 indicated that the transaction remained under intensive review with shareholders and relevant stakeholders, with no final decision concerning its structure or effective implementation date. Furthermore, industry reporting published on October 2, 2026, stated that the proposed integration would not be completed during 2026 (Bisnis.com, 2026; ch-aviation, 2026). These developments establish an important boundary for the present analysis: the strategic and financial consequences of the proposed integration cannot yet be assessed as realized post-merger outcomes.

The analysis identifies four principal dimensions through which the proposed integration could potentially create strategic value. First, resource complementarity could enable more effective utilization of aircraft, route networks, customer relationships, and operational capabilities. Second, operational coordination could generate cost efficiencies and improve resource allocation. Third, operational improvements could contribute to financial recovery if they produce sustainable cash-flow benefits that exceed implementation costs. Fourth, organizational adaptation and effective governance could help convert these improvements into sustainable competitive advantage.

Nevertheless, these relationships are conditional rather than automatic. The existence of common state ownership or a proposed group structure does not establish that the participating airlines possess fully compatible operations or that integration will produce net economic benefits. The final transaction structure, the allocation of assets and liabilities, and the responsibilities of the participating entities remain important considerations in determining whether the proposed initiative is strategically and financially viable. Accordingly, the principal finding is that the proposed integration should be evaluated as a strategic opportunity requiring financial validation, operational coordination, and organizational readiness rather than as an established solution to Garuda Indonesia's financial challenges.

Financial Rationale for the Proposed Integration

The financial conditions of Garuda Indonesia and Pelita Air provide a substantive basis for evaluating the proposed integration as a strategic restructuring

option. However, the financial rationale differs between the two companies. Garuda Indonesia's audited 2025 Annual Report recorded operating revenue of USD 3.217 billion and a net loss of USD 319.4 million, compared with operating revenue of USD 3.417 billion and a net loss of USD 69.8 million in 2024. Although the company continued to generate positive operating cash flow of USD 468.4 million in 2025, this amount declined by approximately 20% from the previous year. These developments indicate that positive operating cash generation has not yet translated into sustainable net profitability, while fleet maintenance and investment requirements continue to place substantial demands on financial resources (PT Garuda Indonesia (Persero) Tbk, 2026).

Meanwhile, Pelita Air presents a different financial profile. Its 2024 Annual Report recorded total assets of USD 289.33 million, total liabilities of USD 294.62 million, and negative equity of USD 5.29 million. The company nevertheless reported a recovery in operating performance, with revenue increasing by 81% and profit after tax reaching USD 5.9 million in 2024. Its current ratio, calculated from current assets of USD 61.98 million and current liabilities of USD 98.49 million, was approximately 0.63 times. These figures suggest that improved profitability had not yet fully resolved the company's liquidity and capital-structure challenges (PT Pelita Air Service, 2025; Kompas.com, 2025).

Taken together, the financial evidence suggests that the proposed integration could be examined as a mechanism for improving resource utilization, coordinating procurement and maintenance, optimizing network capacity, and strengthening financial planning across the participating airlines. Nevertheless, the potential benefits should not be interpreted as evidence that integration will automatically improve financial performance. Garuda's substantial liabilities and continuing net losses, combined with Pelita Air's negative equity and relatively weak current ratio, make transaction design and liability allocation particularly important. The integration should therefore proceed only if a comprehensive feasibility assessment demonstrates that the expected net operating benefits exceed transaction costs, restructuring expenditure, and the financial risks associated with the participating

entities.

From a strategic perspective, the appropriate objective is not merely to combine the two airlines' assets and operations, but to establish a financially sustainable structure capable of generating recurring operating cash flows, maintaining adequate liquidity, meeting contractual obligations, and financing essential fleet maintenance and service improvements. Accordingly, the proposed integration should be evaluated against measurable financial indicators, including liquidity, leverage, operating cash flow, profitability, integration expenditure, and post-integration financial flexibility. This approach is consistent with the Resource-Based View because it focuses on the economic value generated by coordinated resources, while also reflecting Dynamic Capabilities Theory by emphasizing the organizational capacity required to adapt operations and convert potential synergies into sustainable financial performance.

This finding is consistent with the argument developed by Akbar et al. (2022) that restructuring decisions should be examined in relation to firm-specific financial conditions. It also aligns with Khezrimotlagh et al. (2022), whose findings indicate that efficiency improvements following airline mergers vary according to the characteristics of the participating airlines. The analysis therefore suggests that financial recovery should be treated as a potential intermediate outcome of successful integration rather than an inevitable consequence of consolidation.

The relevant question is not simply whether the combined organization can reduce costs, but whether it can generate recurring operating cash flows, maintain adequate liquidity, meet its financial commitments, and preserve the capacity to invest in operational reliability. For this reason, the financial assessment should compare the expected economic benefits of integration with its implementation costs and the existing financial obligations of the participating entities. It should also establish whether the proposed transaction would create additional liabilities or redistribute financial risks without improving the underlying economic performance of the group. In practical terms, the following indicators would provide a basis for evaluating the financial consequences of the proposed integration: *Liquidity,*

Leverage, Cash flow, Profitability, Integration expenditure and Financial flexibility Taken together, these indicators provide a more comprehensive basis for assessing whether integration could contribute to financial recovery than a narrow focus on revenue growth or short-term cost reductions.

Resource Complementarity Pelita Air and Garuda Indonesia Group

The second finding concerns the potential contribution of resource complementarity to the strategic value of the proposed integration. Under the Resource-Based View, competitive advantage depends not merely on the resources controlled by an organization but also on their strategic characteristics and the ability to deploy them effectively (Barney, 1991). The proposed integration presents an opportunity to examine whether the participating airlines possess resources that could generate greater value when coordinated within a common strategic framework. Potentially relevant resources include aircraft and fleet capabilities, domestic route networks, customer relationships, brand identities, distribution channels, operational knowledge, procurement arrangements, and organizational expertise. Nevertheless, these resources should not automatically be classified as complementary. The existence of different airlines within the same state-owned aviation ecosystem does not establish that their assets, networks, or operating processes are mutually beneficial. Their strategic contribution must be evaluated through evidence concerning route overlap, fleet compatibility, customer demand, operational requirements, and the costs of coordination.

Garuda Indonesia, Citilink, and Pelita Air have been associated with differentiated market propositions within the proposed aviation portfolio. Such differentiation creates a potential basis for developing a coordinated market structure in which each airline serves an identifiable customer segment. In principle, a group-wide strategy could improve the allocation of capacity and reduce unnecessary duplication while preserving the distinct value propositions of the participating airlines. However, this potential benefit depends on the ability to identify which resources are genuinely complementary and which are substantially overlapping. For example, overlapping routes could create opportunities to improve

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scheduling, adjust capacity, or allocate aircraft more efficiently. Alternatively, the same overlap could lead to internal competition, duplicated capacity, and unnecessary expenditure if commercial decisions remain poorly coordinated.

Table 1. The VRIO framework

Resource and Capability	Potential Strategic Value	Main Consideration
Domestic route networks	Improved connectivity and capacity allocation	Route profitability, overlap, and passenger demand
Fleet and aircraft deployment	Higher utilization and more efficient scheduling	Aircraft compatibility, maintenance, and operating constraints
Brand portfolios	Differentiated market positioning	Clarity of customer propositions and avoidance of brand dilution
Procurement capabilities	Improved purchasing terms and cost control	Contractual compatibility and achievable net savings
Customer relationships and distribution	Wider market access and cross-selling opportunities	Customer preferences, system compatibility, and commercial execution
Organizational knowledge	Better coordination and operational learning	Knowledge transfer, retention, and implementation capacity

Source: Author's synthesis based on Barney (1991) and the proposed integration framework.

The table1. demonstrates that the strategic value of a resource depends on both its characteristics and the organizational arrangements through which it is used. Some benefits, such as lower purchasing costs, may be available to competing airline groups and therefore may not constitute a sustainable competitive advantage on their own. Other capabilities, particularly those involving accumulated organizational knowledge, effective coordination routines, and differentiated customer relationships, may be more difficult to reproduce when developed successfully over time.

This distinction is important because the objective of integration should not be to maximize the number of shared resources indiscriminately. Instead, management should determine which activities benefit from common arrangements and which require operational or commercial autonomy. For instance, group-wide procurement and selected administrative functions may benefit from centralization. In contrast, pricing, service design, and certain network decisions may require

differentiated approaches to preserve each airline's market positioning. The optimal organizational structure would therefore combine coordination where economies of scale or scope are demonstrable with autonomy where differentiation creates greater value. These findings support the application of RBV to the proposed integration, while emphasizing that resource complementarity remains a proposition requiring verification through company-level operational and financial data.

Potential Operational Synergies and Efficiency Improvements

The third finding concerns the potential for operational synergies to connect resource complementarity with financial recovery. Merger synergy theory suggests that coordination between organizations may create additional value when shared activities can be performed more efficiently than under separate arrangements. In the aviation industry, such opportunities may arise in procurement, maintenance planning, fleet utilization, network coordination, distribution, and selected support functions. The analysis identifies four principal areas of potential synergy. First, procurement and support functions may provide opportunities to improve purchasing efficiency. Coordinated procurement of eligible goods and services could strengthen bargaining power and reduce duplicated administrative processes. However, the net benefit would depend on contract terms, purchasing requirements, supplier arrangements, and the extent to which the participating airlines can use common specifications. Second, fleet and maintenance coordination could improve resource utilization

if aircraft deployment, maintenance schedules, technical requirements, and operational constraints can be reconciled. Such coordination could reduce avoidable downtime or improve the allocation of available capacity. Nevertheless, aircraft compatibility and safety requirements must remain central considerations, and the benefits cannot be inferred simply from common ownership. Third, network and capacity planning could improve the allocation of aircraft across routes and customer segments. Coordinated decisions might reduce inefficient overlap, identify complementary connections, and align capacity with demand. Yet route rationalization must account for differences in passenger demand, airport

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infrastructure, network connectivity, and public-service responsibilities. Fourth, commercial and digital coordination could improve customer access and revenue management. Shared distribution capabilities, appropriately designed loyalty arrangements, and coordinated sales channels could potentially increase customer convenience and support revenue generation. However, implementation would require compatible information systems, clear commercial responsibilities, and careful management of differences in customer expectations.

Table 2. The Principal Operational Opportunities and Evidence for Viable Synergy

Potential Synergy	Proposed Mechanism	Relevant Performance Indicators
Procurement	Consolidated purchasing and reduced duplication	Unit procurement cost, verified annual savings
Fleet utilization	Better aircraft allocation and scheduling	Aircraft utilization, downtime, schedule reliability
Maintenance	Coordinated planning and resource deployment	Maintenance turnaround time, maintenance cost per relevant unit
Network planning	Improved capacity allocation and route coordination	Route contribution, load factor, available seat kilometres
Revenue management	Better alignment of capacity, demand, and pricing	Revenue per available seat kilometre, passenger yield
Administrative functions	Reduced duplication in selected support activities	Administrative cost, process efficiency
Digital distribution	Coordinated sales and customer-service processes	Distribution cost, conversion rates, customer satisfaction

Source: Author's analytical synthesis based on the operational-efficiency framework.

The indicators in this table are proposed measures rather than reported post-integration results. Their purpose is to establish a framework through which anticipated synergies could be tested against actual performance. Research by Khezrimotlagh et al. (2022) provides empirical support for the possibility of improved efficiency following airline mergers. Ma et al. (2023) similarly discuss potential scale and synergy effects associated with airline consolidation. However, the findings of González (2024), as discussed in the theoretical review, demonstrate that mergers may also introduce organizational disruption and adversely affect operating performance.

Taken together, these studies suggest that operational synergy depends on the interaction between the strategic opportunity and the organization's

implementation capability. Cost savings cannot be assumed to materialize immediately, and revenue benefits may take longer to emerge because they depend on customer responses, commercial coordination, and market conditions.

Dynamic Capabilities and Organizational Integration Readiness

The fourth finding is that organizational adaptation constitutes a critical condition for realizing the potential benefits of resource integration. While RBV explains why complementary resources may be strategically valuable, Dynamic Capabilities Theory explains how organizations identify opportunities, commit resources, and reconfigure their activities in response to changing conditions (Teece et al., 1997; Teece, 2007). The proposed integration requires more than the administrative combination of businesses. It would involve decisions concerning organizational responsibilities, resource allocation, operational processes, information systems, market positioning, and performance monitoring. The effectiveness of these decisions would influence whether potential synergies can be translated into measurable improvements.

The sensing dimension of dynamic capabilities concerns the identification of opportunities and risks. In this case, management would need to evaluate route-level performance, fleet utilization, procurement arrangements, customer demand, financial exposure, and potential sources of duplication. This process should be based on comparable data from the participating airlines rather than assumptions about the benefits of consolidation. The seizing dimension concerns the selection of opportunities and the commitment of resources. Management would need to prioritize initiatives according to their expected economic contribution, implementation feasibility, financial requirements, and operational risks. For example, coordinating selected procurement categories might be more immediately feasible than integrating complex information systems or redesigning entire route networks.

The transforming dimension concerns the implementation of organizational change. This may involve revising decision-making structures, integrating compatible systems, coordinating operating procedures, and reallocating resources

in response to actual performance. The process would require clear responsibilities, appropriate sequencing, and mechanisms for identifying and correcting implementation problems.

Table 3. Dynamic Capability Dimensions and Integration Readiness

Dynamic Capability	Proposed Integration Application	Evidence of Readiness
Sensing	Identify inefficiencies, market opportunities, and financial risks	Comparable operational data and documented opportunity assessments
Seizing	Prioritize integration initiatives and allocate resources	Approved business cases, funding plans, and assigned responsibilities
Transforming	Implement organizational and operational changes	Implementation milestones, compatible systems, and change-management processes
Organizational learning	Evaluate results and adjust implementation	Periodic performance reviews and documented corrective actions

Source: Author's synthesis based on Teece et al. (1997, 2007).

This framework indicates that dynamic capabilities should not be treated as an assumed consequence of corporate consolidation. They must be demonstrated through identifiable organizational processes and evidence of effective adaptation. For example, a coordinated fleet strategy would require management to reconcile commercial priorities with aircraft availability, maintenance requirements, and scheduling constraints. Similarly, centralized procurement would require appropriate contract management and coordination of operational specifications. If these processes are not adequately developed, the proposed integration could create additional complexity instead of improving efficiency.

The findings also imply that integration readiness should be assessed before the transaction is finalized. Management should establish whether reliable baseline data are available, whether decision rights are clearly defined, whether implementation costs have been estimated, and whether the participating organizations possess the necessary technical and managerial capabilities. Accordingly, dynamic capabilities represent an important explanatory mechanism connecting resource complementarity with operational outcomes. They help explain

why similar integration opportunities may produce different results depending on the organization's ability to implement and adapt its strategy.

Corporate Governance and the Challenges of State-Owned Airline Integration

The fifth finding concerns the importance of corporate governance in determining whether the proposed integration can generate sustainable value. The institutional context of state-owned enterprises introduces additional considerations because commercial objectives must be balanced with public-policy responsibilities, national connectivity, stakeholder interests, and the responsible management of public assets. In the proposed integration, governance arrangements would influence the allocation of assets and liabilities, the authority of group management, the strategic responsibilities of each airline, and the mechanisms used to monitor financial and operational performance. These arrangements are particularly important when the participating airlines have different business models and commercial priorities.

One potential governance challenge is the allocation of decision-making authority. If the group centralizes too many activities, individual airlines may lose the flexibility required to respond to their respective customers and markets. Conversely, if operational and commercial decisions remain entirely separate, the group may be unable to realize the coordination benefits that justify integration. A second challenge concerns financial accountability. The proposed structure should clarify how integration costs will be allocated, how anticipated savings will be measured, and how financial risks will be managed. Without transparent arrangements, reported improvements in one entity could reflect the transfer of expenditure or obligations to another entity rather than a genuine improvement in group-wide economic performance. A third challenge concerns the relationship between commercial viability and public-service objectives. Route decisions should account for financial performance and national connectivity requirements. Consequently, an evaluation framework based exclusively on short-term profitability may not adequately capture the wider responsibilities of state-owned airlines. At the same time, public-service objectives should be explicitly identified

and assessed so that their financial implications remain transparent.

An additional governance issue is the potential tension between Public Service Obligations (PSO) and commercial profitability. The integration plan should not assume that every route can or should be assessed solely on a stand-alone commercial-profitability basis. Routes serving remote, underserved, or strategically important communities may generate wider connectivity and public-policy benefits that are not fully reflected in ticket revenue. At the same time, a public-service rationale should not become an open-ended justification for losses or an opaque transfer of costs within the group. The proposed structure should therefore distinguish commercially operated routes from routes explicitly assigned or supported for public-service purposes, subject to the applicable government and regulatory framework.

To manage this tension, the parties and relevant public authorities should establish a transparent route-classification and funding mechanism before implementation. For any route designated as a public-service responsibility, the service scope, frequency, quality standards, eligible cost components, funding source, compensation formula, and review period should be documented in advance. Where a PSO contract or government compensation mechanism applies, the relevant obligations and payments should be recorded separately and reconciled against actual service delivery. Where no such mechanism has been formally approved, the article recommends that the integration plan identify the funding gap and obtain an explicit policy decision rather than assume that the commercial airline group will absorb the cost. This approach would make the fiscal implications visible and reduce the risk of hidden cross-subsidization.

Performance evaluation should consequently use a dual-accountability framework. Commercial activities should be assessed through route contribution, yield, load factor, cash generation, and return on invested capital, while designated public-service activities should be assessed through accessibility, service continuity, punctuality, safety, coverage, affordability, and cost per unit of service, alongside compliance with the approved PSO agreement. Group-level reporting should

disclose both sets of outcomes and clearly identify any public compensation, internal transfer, or cross-subsidy. A board-approved policy should specify which decisions remain with each airline, which are coordinated at group level, and which require shareholder or government approval. This arrangement would help preserve commercial discipline while ensuring that public-service objectives are funded, measured, and governed transparently.

These considerations suggest that the proposed integration would benefit from a governance framework incorporating the following elements: clearly defined responsibilities, transparent procedures for allocating assets, liabilities, and integration expenditure, independent monitoring of financial assumptions and expected synergy benefits, performance indicators covering financial sustainability, operational reliability, service quality, and relevant public-service objectives, appropriate risk-management procedures for contractual, operational, technological, and organizational changes and regular reporting of implementation progress and material changes in the transaction structure. The importance of these arrangements is reinforced by the current status of the proposed transaction. Garuda Indonesia's reported disclosures in 2026 indicated that the consolidation remained under review and that its final structure had not been determined (Bisnis.com, 2026). The subsequent industry report that completion would be delayed beyond 2026 further demonstrates the uncertainty surrounding implementation (ch-aviation, 2026).

The absence of a finalized structure does not establish that the proposed integration will fail. Rather, it means that its feasibility must be evaluated against clearly defined governance requirements and realistic implementation assumptions. From a strategic-management perspective, effective governance is therefore not merely an administrative prerequisite. It is an enabling condition that influences whether resource coordination produces genuine economic benefits, whether financial risks remain manageable, and whether differentiated market propositions can be preserved within a coordinated group.

Sustainable Competitive Advantage as a Long-Term Strategic Outcome

The sixth finding concerns the distinction between short-term efficiency

improvements and sustainable competitive advantage. The preceding analysis indicates that the proposed integration could create opportunities to improve cost efficiency, resource utilization, and network coordination. However, these potential benefits do not necessarily establish a durable competitive position. Under RBV, sustainable competitive advantage depends on resources and capabilities that create value and are difficult for competitors to replicate or substitute (Barney, 1991). From this perspective, procurement savings, administrative consolidation, or increased purchasing volume may improve financial performance without necessarily generating a distinctive advantage. Competitors may be able to implement similar measures through their own organizational arrangements.

More durable advantages may arise when operational resources are combined with organizational knowledge, effective coordination routines, customer relationships, and distinctive market positioning. Such advantages depend on the ability to develop and maintain organizational capabilities that competitors cannot easily reproduce. The proposed integration could potentially support this process by enabling the participating airlines to coordinate selected resources while retaining differentiated service propositions. For example, a group-wide strategy could seek to improve operational efficiency through common support functions while preserving the commercial characteristics of each airline. This would allow the group to pursue coordination benefits without necessarily eliminating market differentiation. However, the relationship between financial recovery and competitive advantage remains conditional. Improved cash flow may strengthen the ability to invest in aircraft, technology, employees, and service development, but these investments must be directed toward capabilities that create meaningful customer value. Similarly, improved network coordination may strengthen market access, but its long-term contribution would depend on customer demand, operating reliability, and the economic viability of the routes involved.

Dynamic Capabilities Theory provides a complementary explanation of how these advantages might be maintained. Even if integration initially produces efficiency gains, the organization must continue adapting to changes in fuel prices,

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passenger demand, aircraft availability, competition, and regulation. The capacity to revise resource allocation, improve processes, and respond to market developments is therefore essential to sustaining competitive performance.

Table 4. Different Levels of Outcomes Distinction

Outcome level	Examples	Assessment horizon
Immediate implementation outputs	Defined responsibilities, coordinated procurement arrangements, integrated planning processes	Short term
Operational outcomes	Improved aircraft utilization, lower avoidable costs, better capacity allocation	Short to medium term
Financial outcomes	Stronger operating cash flow, improved liquidity, more sustainable profitability	Medium term
Strategic outcomes	More effective market differentiation, organizational resilience, distinctive capabilities	Medium to long term
Sustainable competitive advantage	Continued value creation through capabilities that competitors cannot easily replicate	Long term

Source: Author's analytical synthesis based on RBV and Dynamic Capabilities Theory.

This framework demonstrates why transaction completion should not be used as the principal measure of success. Even a successfully completed integration may fail to generate sustainable competitive advantage if it produces excessive costs, weakens customer propositions, or fails to improve the organization's ability to adapt. Conversely, some integration initiatives may produce meaningful operational improvements before their full strategic benefits become apparent. The evaluation should therefore distinguish implementation milestones from measurable performance outcomes and longer-term capability development. The analysis suggests that sustainable competitive advantage should be treated as a long-term strategic objective supported by effective resource management, financial discipline, market differentiation, and organizational adaptation. It cannot be inferred solely from the proposed consolidation of corporate structures.

Synthesis of Findings and Theoretical Implications

The findings establish a conditional relationship between corporate

integration, resource complementarity, operational synergies, financial recovery, and sustainable competitive advantage. Rather than indicating that integration automatically improves performance, the analysis suggests that the strategic value of consolidation depends on the interaction between resource characteristics, organizational capabilities, financial constraints, and governance arrangements.

Table 5. The Principal Relationships Identification of Dimensions

Analytical Dimension	Main Finding	Strategic Implication
Financial recovery	Integration may support financial improvement, but benefits depend on net cash-flow effects and existing obligations	Financial viability must be established before implementation
Resource complementarity	Shared ownership creates opportunities but does not establish that resources are complementary	Resource and capability mapping is required
Operational synergies	Procurement, fleet, network, and administrative coordination may improve efficiency	Each synergy requires a measurable baseline and implementation-cost assessment
Dynamic capabilities	Integration benefits depend on the ability to identify, implement, and adapt strategic changes	Organizational readiness must be assessed explicitly
Corporate governance	Decision rights and financial accountability influence implementation effectiveness	Governance arrangements must be transparent and clearly defined
Sustainable competitive advantage	Efficiency improvements do not necessarily produce durable competitive differentiation	Long-term capability development and market positioning must be evaluated separately

Source: Author's synthesis of the case analysis and theoretical framework.

From the perspective of RBV, the proposed integration offers a potential opportunity to coordinate complementary resources and develop capabilities that create value beyond independent operations. Nevertheless, the strategic contribution of these resources remains dependent on their actual characteristics and the effectiveness of their deployment. From the perspective of Dynamic Capabilities Theory, integration effectiveness depends on organizational processes for identifying opportunities, committing resources, implementing changes, and adapting to emerging conditions. These processes provide an explanation for why the same resource combination may produce different outcomes under different

management and governance arrangements.

Financial restructuring theory adds an important qualification: operational improvements contribute to recovery only when they support a more sustainable financial position. Cost reductions and improved asset utilization must therefore be evaluated against implementation expenditure, financing obligations, and the requirements of ongoing operations. Merger synergy theory further indicates that the expected benefits of integration should be evaluated in net rather than gross terms. A reduction in duplicated expenditure is not necessarily an economic gain if it is offset by transaction costs, operational disruption, or reduced revenue. Similarly, an increase in scale does not guarantee improved efficiency if the resulting organization becomes more difficult to coordinate.

These findings support the development of an integrated analytical proposition : The proposed integration of Pelita Air into Garuda Indonesia Group could contribute to financial recovery and sustainable competitive advantage when complementary resources are identified accurately, operational synergies exceed implementation costs, management possesses the capabilities required to reconfigure organizational resources, and governance arrangements maintain financial accountability and strategic differentiation.

This proposition does not imply that the anticipated outcomes have already been achieved. Instead, it identifies the conditions under which the proposed integration may generate strategic value and provides a basis for subsequent empirical assessment. The analysis also highlights a case-specific research contribution. Existing airline-merger research examines operational efficiency, productivity, and synergy realization, while RBV and Dynamic Capabilities Theory explain resource-based advantage and organizational adaptation. Applying these perspectives together to a proposed integration involving Indonesian state-owned airlines enables the study to connect financial recovery, resource coordination, implementation readiness, and long-term competitiveness within a single analytical framework.

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Managerial Implications and Proposed Performance Evaluation

The findings have several implications for the management of Garuda Indonesia Group, Pelita Air, and the relevant state-owned enterprise stakeholders. First, management should conduct a comprehensive financial and operational assessment before finalizing the transaction structure. This assessment should establish the financial position of the participating entities, identify existing contractual obligations, map resource overlap, and evaluate the expected costs and benefits of alternative integration arrangements. Second, the integration strategy should prioritize initiatives with clear economic justification and manageable implementation requirements. Activities such as selected procurement coordination or shared administrative services may provide opportunities for early evaluation, provided that their feasibility is demonstrated through reliable data. More complex initiatives, including information-system integration and extensive network redesign, should be assessed according to their operational dependencies and implementation risks.

Third, the group should preserve meaningful market differentiation. A coordinated corporate structure should not automatically result in identical pricing, service standards, or commercial strategies across all participating airlines. Instead, the group should determine which functions benefit from central coordination and which require distinct commercial decision-making. Fourth, implementation should be governed through measurable performance targets and regular monitoring. A baseline should be established before integration, and performance should be assessed against comparable pre-implementation data. This would allow management to distinguish improvements attributable to operational changes from those arising from external market conditions or unrelated corporate initiatives.

Finally, management should treat organizational learning as an ongoing requirement. Integration initiatives should be reviewed periodically, with implementation plans adjusted when expected benefits fail to materialize or when new operational risks emerge. This approach would operationalize the sensing, seizing, and transforming dimensions of Dynamic Capabilities Theory.

With respect to public-service responsibilities, the integration plan should establish a formal PSO governance protocol. The protocol should identify designated routes and service standards, specify the responsible contracting and funding authority, separate PSO-related costs and compensation from commercial operating results, and require periodic reconciliation and public reporting. The group should avoid using commercially profitable routes or subsidiaries to absorb public-service costs without a transparent and approved mechanism. This would enable management to assess commercial performance fairly while maintaining accountability for national connectivity objectives.

Limitations of the Findings

The findings must be interpreted in light of the study's qualitative single-case design and reliance on secondary data. The analysis identifies potential relationships and implementation conditions, but it does not provide direct evidence of the actual post-integration performance of Pelita Air and Garuda Indonesia Group. First, the proposed integration had not been completed as of October 2026, and its final structure remained unresolved. Consequently, the analysis cannot establish realized merger synergies, actual post-integration cost savings, or causal improvements in financial performance.

Second, publicly available corporate reports may not disclose all the information required to evaluate resource complementarity and implementation feasibility. Detailed data concerning route-level profitability, aircraft allocation, contractual obligations, procurement arrangements, and projected integration expenditure may not be available in sufficient detail for independent verification. Third, differences in accounting practices, reporting periods, business models, and operational characteristics may limit direct comparisons between the participating airlines. Any quantitative comparison should therefore use consistent definitions and account for relevant structural differences.

Fourth, the strategic and financial consequences of integration may be influenced by external conditions, including fuel-price volatility, passenger demand, exchange rates, regulatory requirements, and broader economic developments.

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These factors may affect financial and operational outcomes independently of integration. Finally, the proposed analytical framework identifies plausible mechanisms and enabling conditions, but the relative importance of those mechanisms cannot be established conclusively without further evidence. Subsequent research could strengthen the analysis through updated financial data, detailed operational indicators, stakeholder interviews, and longitudinal evaluation if the integration proceeds. These limitations do not eliminate the value of the analysis. Rather, they clarify its contribution as a theoretically informed assessment of strategic potential, implementation requirements, and financial and organizational risks.

This study examined the proposed integration of Pelita Air into Garuda Indonesia Group as a potential strategic mechanism for supporting financial recovery and developing sustainable competitive advantage in Indonesia's state-owned aviation sector. Using a qualitative single-case study approach and a theoretical framework combining the Resource-Based View (RBV) and Dynamic Capabilities Theory, the analysis explored the relationship between resource complementarity, operational synergies, financial restructuring, corporate governance, and long-term competitiveness.

CONCLUSION AND RECOMENDATIONS

This study examined the proposed integration of Pelita Air into Garuda Indonesia Group as a potential strategic mechanism for supporting financial recovery and developing sustainable competitive advantage in Indonesia's state-owned aviation sector. Using a qualitative single-case study approach and a theoretical framework combining the Resource-Based View (RBV) and Dynamic Capabilities Theory, the analysis explored the relationship between resource complementarity, operational synergies, financial restructuring, corporate governance, and long-term competitiveness. The findings suggest that the proposed integration could create strategic opportunities through improved resource utilization, coordinated procurement, more effective fleet and network planning, and the development of complementary market offerings. However, these

opportunities depend on the actual compatibility of the participating airlines' resources and their ability to coordinate operations without creating excessive costs, organizational complexity, or internal competition. The strategic value of integration therefore lies not simply in combining corporate structures, but in developing arrangements that enable resources to generate greater economic value than they could achieve independently. The analysis also indicates that financial recovery cannot be assumed to follow automatically from corporate integration. Although operational efficiencies may support improved financial performance, their contribution depends on whether the resulting benefits exceed transaction and implementation costs and whether they generate sustainable operating cash flows. Consequently, financial feasibility should be evaluated through comprehensive assessments of liquidity, leverage, profitability, operating cash flow, and the financial obligations of the participating entities. The proposed integration should complement, rather than substitute for, effective financial restructuring and disciplined capital allocation.

Based on the findings of this study, the proposed integration of Pelita Air into Garuda Indonesia Group should be preceded by a comprehensive financial and operational feasibility assessment to ensure that the anticipated benefits outweigh the associated costs and risks. The participating companies should evaluate their financial positions, including liquidity, leverage, operating cash flow, profitability, and existing contractual obligations, while identifying potential risks arising from the allocation of assets and liabilities. This assessment is essential to ensure that integration supports sustainable financial recovery rather than merely redistributing existing financial pressures between affiliated entities. Furthermore, management should establish clear financial targets and measurable performance indicators to evaluate whether the proposed integration can generate tangible economic value.

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