8. Corporate governance of state-owned airlines in southeast Asia: the gloomy case of Garuda Indonesia

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INTRODUCTION

Despite the deregulation and liberalisation wave of the 1980s and 1990s (Delfmann et al., 2005; Goetz & Graham, 2004), the majority of the world's airlines are still at least partially owned by their home country governments (Christiansen, 2021). The justification of states to – at least partially – own "their" airline(s) is usually based on control considerations, as governments aim to influence company decisions and activities in the interest of their nation's economy and society at large (Cuervo-Cazurra et al., 2014; Jia et al., 2019). The case for airline state ownership is usually made along one of two logics (Cuervo-Cazurra et al., 2014). First, airlines are seen as a critical instrument for the provision of public services (e.g., by providing reliable and affordable access to remote or underserved areas of a country). Second, airlines are seen as instruments which can aid a country's economic prowess, national pride, and development (e.g., providing international connectivity, employing a highly skilled workforce, ensuring large-scale employment, and promoting awareness of a country as a brand). These logics reflect the instrumental character of airlines for their governments and influence the setup of airlines' corporate governance. These logics, however, are not always explicit or come in pure form, nor are they consistently followed over time. Additionally, qua ownership in their airlines, governments are confronted with financial performance considerations, leading to fluctuating and partially contradictory corporate governance provisions for state-owned airline (SOA) managers.[1] Governmental objectives and corporate governance provisions may shift quickly (e.g., following election cycles and ministerial fluctuation), whereas organisational processes, practices, and belief systems are complex and take time to change, leading to (episodes of) inconsistency in the organisation that hinder their effectiveness.[2]

We use the case of Garuda Indonesia to explore the tension between shifting political objectives, complex organisational attributes, and the organisational effectiveness of SOAs in Southeast Asia. With revenues of more than US$4 billion and more than 30 million passengers annually (pre-Covid), Garuda is among the leading airlines in Southeast Asia; it belongs to a strategic industry (transportation) of a transition economy, where state ownership is seen as particularly critical (Okhmatovskiy, 2010).

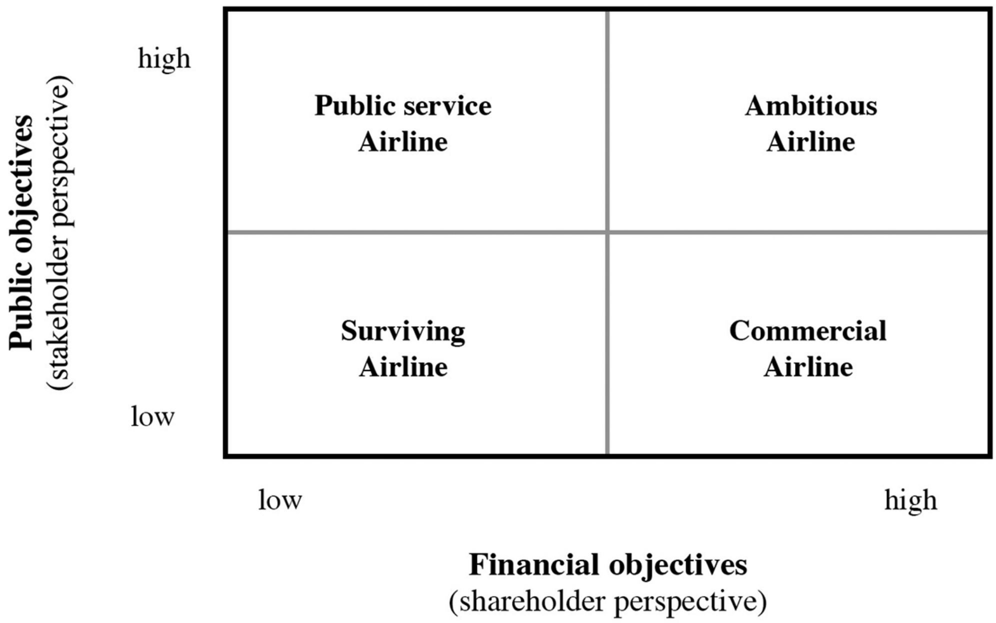
This chapter starts by outlining different types of SOAs based on different constellations of governmental objectives as airline owners. It then introduces the case of Garuda Indonesia, delineating shifting government objectives, corporate governance provisions, and organisational effectiveness to highlight core problems in Garuda's development. The final section discusses the potential implications for SOAs and suggests implications for research and practice of airline corporate governance.

AIRLINES AS STATE-OWNED ENTERPRISES: ISSUES AND CHALLENGES

Interest in state-owned enterprises (SOEs) has surged over the last decade, partially due to the increasing role of Chinese state-owned multinationals in international business (OECD, 2016). From a theoretical point of view, SOEs have attracted attention as so-called hybrid organisations, pursuing both commercial objectives in their respective marketplaces and political objectives simultaneously (Bruton et al., 2015; Dragomir et al., 2021). Due to their perceived strategic importance for a country's economic development and social cohesion, airlines are particularly prone to state ownership (Doganis, 2001). Governments aim to ensure control over company decisions, particularly in relation to airlines' role in providing public services. The provision of infrastructure and the operation of reliable, secure, and accessible air transportation networks are critical for a nation, and access to the broader public based on affordable pricing schemes is deemed relevant for social cohesion and mobility (Cuervo-Cazurra et al., 2014). Another argument is based on their economic relevance: safeguarding a country's strategic resources and technologies, large-scale employment, and connectivity to international destinations and business centres (Cuervo-Cazurra et al., 2014; Dragomir et al., 2021; Jia et al., 2019) favours airline state ownership. Both arguments combine to allow governments quick access to information, exercise control, and direct influence over airline decisions, arguably in the broader public interest. The state is, however, also a financial investor that, at least temporarily, is interested in the airline's financial performance: consistent losses of an SOA can drain state finances, while consistent profits can contribute to the national budget, as can a (partial) initial public offering (IPO). From this perspective, the government's objectives as an owner are more akin to the goals of private shareholders.

To understand the typical challenges of SOAs, resulting from their shifting instrumental character for fluctuating governmental objectives, we argue that it is instructive to consider the state's public and financial objectives as an airline owner. Both objectives tend to conflict and are neither mutually exclusive nor pursued explicitly. In practice, they are combined to different degrees, with different intensities, informing and constraining airlines in the pursuit of commercial success or public service orientation alone.

Plotting both objectives along two axes with a high/low priority differentiation allows us to distinguish four typical settings that accommodate four SOA types (Figure 8.1). "Public Service Airlines" have an evident public utility character from their governments who control their board as the majority owner. Their mission is to safeguard labour conditions or influence infrastructure access. State ownership ensures a surplus value for society and can come with low or negative financial success. "Commercial Airlines" have clear financial objectives – including those SOAs in which the state emphasises profitability over public utility considerations. Especially in the unlikely situation when a private investor takes control of the board with a block-holding equity stake, the goal to optimise profitability will gain importance, potentially at the expense of other non-financial objectives. "Ambitious Airlines" are airlines where the state, as the owner, expects both profitable operations and the fulfilment of public service elements. This combination is prone to failure as public service obligations may accumulate without adequate compensation possibilities, leading to a potential loss that faces continuous pressure to return to profitability. Alternatively, it is subject to fluctuating emphases of both objectives, which can also lead to stretching the airline's financial resources and orientations. Finally, "Surviving Airlines" are SOAs without a clear charter. They operate in an (often temporary) expectational vacuum, free to pursue financial or public service objectives at their discretion. However, this is often unsuccessful due to a lack of specific competencies, complete professional dedication, or explicit leadership. As long as none of these objectives is completely "corrupted", their (unambitious) government owners leave it to their own devices in a hands-off fashion: they shy away from the costs associated with liquidating such non-competitive airlines, including social and emotional costs and unrests related to closure, as they may outweigh the short-term economic gains.



Source: Illustration by authors.

Figure 8.1 Typology of SOA types along government objectives

In an "at least partially open" airline market, steering any of these four SOA types will be challenging because of the national and international competition with privately owned airlines. Boards are well advised to be aware of these conundrums and be careful not to aggravate the dire situation of industry unattractiveness. These four types of SOAs reflect the different emphases of governments' objectives in their airline engagement, directly impacting how SOAs are managed and supervised. For each type, states must influence the respective airlines' decision-making processes to ensure that decisions are taken favourably (i.e., in their interest). Their boards and corporate governance practices usually ensure companies' supervision and control.

Corporate governance describes an organisation's internal and external control structures and mechanisms (Harlacher & Reihlen, 2014). Internal control refers to the composition of the firm's board of directors, the roles and rights given to its shareholders, the extent to which they participate in the firm, internal risk management, and transparency provisions. Furthermore, it refers to how leadership uses control systems to define decision-making responsibilities and the management systems employed to incentivise the organisation's employees (Harlacher & Reihlen, 2014). External control mechanisms come from outside the organisation, reflecting its institutional context. Regulators, intermediaries, and intermittent capital providers affect how organisations react or adapt to those institutions and potential market incentives.

To address public and financial objectives, states often own significant firm stakes and claim active participation in business decision-making (Dragomir et al., 2021). To ensure that decisions are taken in the state's interest, ministries try to control the organisations by directly influencing appointments to the board of directors (Dragomir et al., 2021). In some cases, this occurs by inviting government representatives to boards so as to gain access to critical information and to influence [the implementation of] governmental goals (Okhmatovskiy, 2010). This typically occurs by centralising administrative power within organisations to ensure that political intentions prevail (Dragomir et al., 2021). Even when an SOE is publicly listed, the state owner often retains strategic voting rights (Cuervo-Cazurra et al., 2014). External (market) control may subtly nudge an SOE to take competitiveness seriously, but internal control objectives occasionally trump the external market control mechanisms.

The specific design of such corporate governance mechanisms is an essential parameter of success for SOEs (Okhmatovskiy, 2010). Poor selection and design of control mechanisms have been identified as common antecedents of well-known SOE problems (Wong, 2004), such as lack of independence of the management board, orientation towards non-business-related criteria in decision-making, the entrenchment of management, or the likelihood of fraud and corruption. As such, the literature discusses the malleable performance of SOEs compared to privately-run businesses (Backx et al., 2002; Chen et al., 2017; López-Bonilla & López-Bonilla, 2008). This is especially true for SOAs, which are frequently associated with weaker performance (Backx et al., 2002; Wing Chow, 2010). Beyond that, extant research also points to lower customer satisfaction rates of airlines with (partial) state ownership compared to private companies (López-Bonilla & López-Bonilla, 2008).

Further issues of SOEs are the need for adequate managerial competence and the experience of bureaucrats taking over crucial management positions, a particularly salient challenge in aviation (Beria et al., 2011). Burghouwt and Dobruszkes (2014) detail that an airline's board of directors needs to understand network structures, aircraft specificities, regulatory aspects, and the competitive environment to ensure effective steering of the organisation (Burghouwt & Dobruszkes, 2014). In addition, some literature on SOEs mentions potential fraud and corruption by political actors trying to favourably influence critical business decisions (Verhezen, 2009; Verhezen & Abeng, 2022). Finally, Vernon (1984) introduces the challenge of uniting the structural and organisational habits of managers and ministers, who are forced to collaborate effectively despite their contrasting backgrounds in governing an organisation.

Despite the burgeoning research on the corporate governance of SOEs and some intriguing inquiries into SOAs and their corporate governance, the relationship between shifting governmental objectives, corporate governance provisions within SOAs, and organisational effectiveness is not well understood. We selected the case of Garuda Indonesia, the national flag carrier of Indonesia that went through severe upheaval on its boards over the past 25 years, to demonstrate how changes in political objectives and associated control mechanisms of an SOA lead to fluctuating effectiveness over time. In presenting Garuda's development phases, we argue that the airline has been successful only in those phases in which there existed a match between clearly defined and transparent political objectives, the needed expertise and independent dedication, and appropriate control mechanisms.

GARUDA INDONESIA – CORPORATE GOVERNANCE OF AN SOA AT WORK

The case of Garuda Indonesia illustrates how changes in governments and their political objectives can result in repercussions for the company's corporate governance and (financial) performance. In its history, Garuda evolved from bankruptcy as a former monopolist to a competitive, publicly listed SOA and then back into a bankrupt airline that filed for Chapter 15 in a New York court to restructure the massive debt on its lease payments in mid-September 2022 (Reuters, 2022).

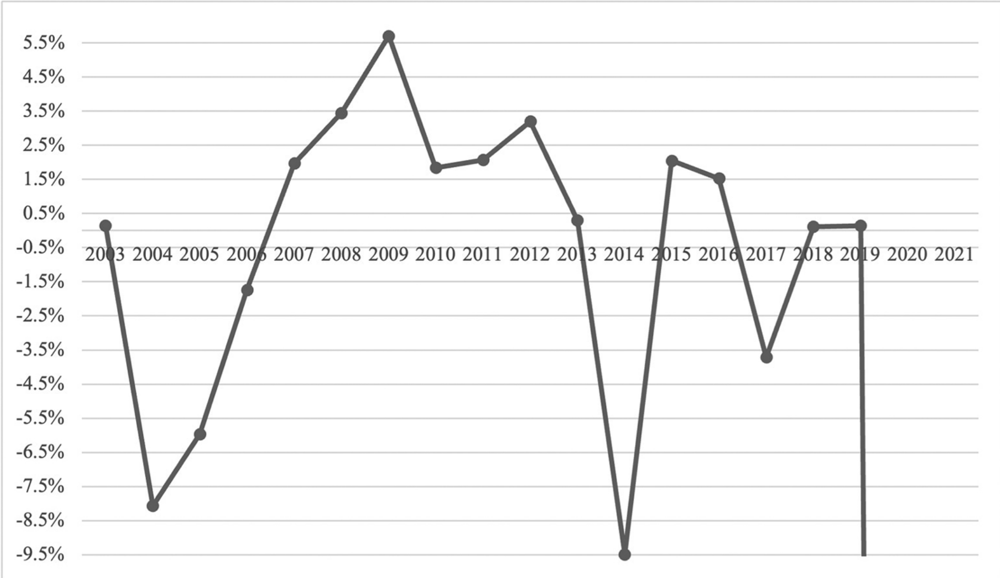
A Brief History of Garuda

Garuda Indonesia was founded in 1947 as KLM Interinsular Bedrijf, part of the KLM Royal Dutch Airlines Group. It was nationalised in 1949 and had been the monopolistic flag carrier of Indonesia until the late 1990s. In 1999, Garuda was on the verge of bankruptcy after the Indonesian President Suharto had to resign due to social unrest demanding democratisation and deregulation in the country in 1998 (Mydans, 1998). In 1999, Indonesia started deregulating its airline market (Anas & Findlay, 2017), with a grossly over-indebted Garuda losing its de facto monopoly status. Robby Djohan, an experienced banker, was installed as CEO in 1999 by SOE Minister Tanri Abeng, himself an experienced professional manager and former CEO of Heineken Indonesia, to turn the bleeding state-owned company around. The airline became profitable again in 2003 and started an overall positive trajectory, combining high-quality operations with positive financial performance. This trajectory included the most successful phase of the airline, delivering profits between 2007 and 2013 (see Figure 8.2). During that time, the overall performance improvement allowed the board to take advantage of the newly gained reputation to get Garuda listed on the stock exchange in February 2011. In 2012, Garuda was named the Best International Airline by Skytrax; the award became a game-changer for Garuda, its employees, and its customers. It brought pride and trust back to the company and boosted the morale and productivity of its employees, culminating in a five-star ranking – the highest possible – by Skytrax in 2015.

However, despite this positive performance, Garuda's saga of becoming a premier airline in terms of profitability and superb service lasted only a short time. The financial situation deteriorated after the IPO, with substantial financial burdens that became predominant after 2015. Garuda's share price began to fall; its management and supervisory board members were frequently changed; on top of that, the aviation crisis of 2020 (the COVID-19 pandemic) contributed to Garuda's dire situation today. In 2021, Garuda was technically bankrupt (again), worth minus USD 2.3 billion, and even close to USD 3 billion in the negative in 2022.

Corporate Governance at Garuda 1999–2022

Like all companies in Indonesia – which took over the [colonial] Dutch legal system – Garuda operates with a two-tier board structure consisting of a board of directors and a separate supervisory board (Verhezen & Abeng, 2022). The management (or executive) board has the mandate to develop the company's strategy, which then needs to be approved by the supervisory board. It is responsible for executing the decisions made by the board (Verhezen & Abeng, 2022). The supervisory board has the legal fiduciary duty of care, loyalty, and



Source: Illustration by authors (data by Garuda Indonesia (2024)).

Figure 8.2 Garuda's operating margin 2003–2021

prudence to supervise, control, advise, and coach the executive board. The supervisory board members (also called commissioners or non-executive directors) must also secure consistency and continuity in the leadership through proper talent leadership development and succession planning. Unfortunately, it is hard to see the actual performance and signing off of those legal duties over the years at Garuda. The boards communicate their yearly objectives in their annual reports, which have lacked consistency since 2015. The recent reality reveals failing boards at Garuda, that were unable to maintain performance at the same level that had been achieved in the airline's restructuring as a response to the Asian crisis in 1999.

Between 1999 and 2002, the management board's focus was on the structural shift from a monopolist to a competitive company. The state installed an experienced banker obliged to turn the organisation around. Unlike the following phases, there was a clear aim to build up an airline that would allow Indonesia to safeguard employment, maintain international connectivity, and provide transport to remote areas or islands of the country. This public utility orientation was dominant at Garuda during this phase, with less attention being paid to financial performance. The national airline was in dire straits. The responsible minister of SOEs decided to apply direct measures by appointing a seasoned and experienced executive to turn the airline around by slashing costs and making some strategic decisions while completely ignoring and setting aside vested political interests. Thus, Garuda represented a "Public Service Airline", which was successful in its ownway, and the airline was even making small profits.

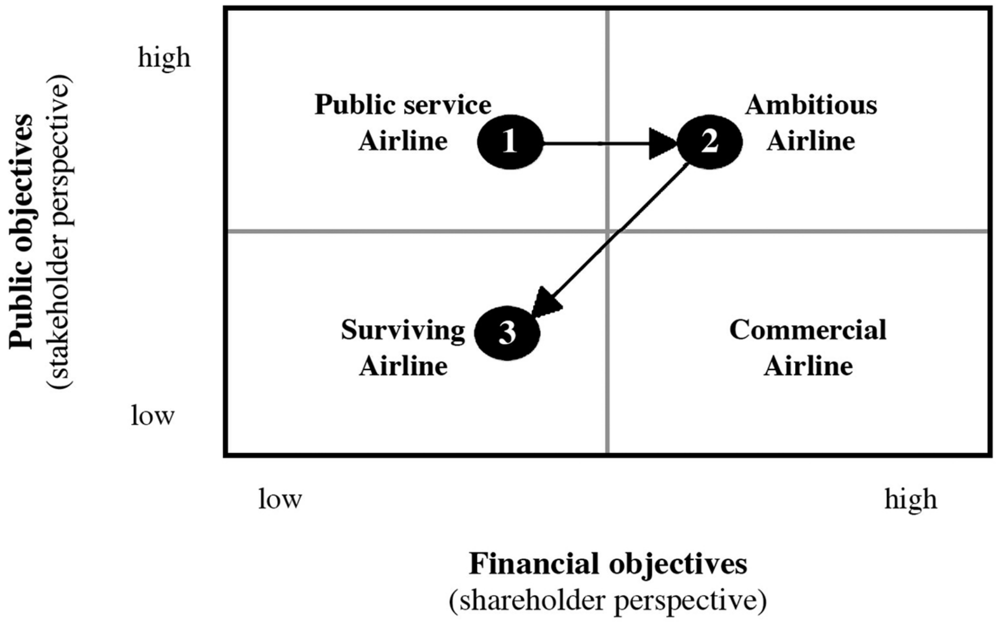
Building on this phase of securing the company and setting up a solid foundation for its future, Garuda's development was characterised by an increasing orientation towards financial objectives, gearing towards growing a successful enterprise on these foundations. Garuda showed a positive operational result, reflected by its positive and steadily increasing operating margins during that time. This highlights the emphasis of its management on establishing efficient processes and prioritising customer satisfaction – to successful ends, as certified by the Skytrax award – despite both the end of the Asian flu and the beginning of the global financial crisis. The sustained efforts to improve financial performance and services culminated in Garuda's PO in 2011, raising more than USD 520 million (Reuters, 2011). This new capital would be used for future investments in their fleet and network.

Moreover, the public listing reinforced the state's re-orientation to expand airline operations and emphasised a shift from the mere public towards more financial objectives. Such a reinterpretation of its objectives does not come as a surprise since a considerable portion of the new investors (post-IPO) would be seeking a return on their investment, putting increasing pressure on the airline to perform financially. With external investors coming in, corporate governance practices were adjusted due to legally mandated transparency and accountability provisions. Since listing its shares to the public on the Indonesian Stock Market, Garuda was set to continue its growth and success trajectory. This was also honoured globally throughout the industry, especially in its inclusion as a member of the global SkyTeam airline alliance (Skyteam, 2014) and its five-star Skytrax award (Miller, 2015), widely recognised as achievements essential to the nation as a whole. As a result of this performance, Garuda evolved from a "Public Service Airline" into an "Ambitious Airline" in 2015, with a balanced usage of effective internal and external control mechanisms. Between 2011 and 2015, Garuda benefited from a short honeymoon period and a global economy rebounding after the global financial crisis. However, the upbeat performance cycle came to an abrupt end in 2015.

Post-2015, Garuda's stock prices began to fall. The airline ended up with severe financial problems through mismanagement – including a corruption case involving Garuda's CEO (da Costa & Davies, 2020) – and relatively poor boardroom supervision, aggravated by the COVID-19 pandemic. Garuda invested heavily into its fleet and network extension, placing a $20bn new aircraft order at the 2015 Paris Air Show (Natahadibrata, 2015). Some may argue that it was pure hybris to invest in such a vast network and increased number of leased aircraft. Although these investment decisions seemed to stretch the airline's budget, no board member within Garuda seemed to intervene or question these aggressive lease agreements. To make it worse, Garuda's supervisory board members were not all selected because of their management experience or knowledge of the industry but instead for political favours or political loyalty, which appears as nepotistic behaviour. Unfortunately, the airline returned to "old business as usual", where politicians felt empowered to influence appointments along personal priorities, undermining good corporate governance practices. The situation was aggravated by mismanagement that went unnoticed or unreported by the supervisory board – which meant that the internal control mechanisms failed. Indeed, the supervisory board missed the opportunity to question or intervene in some questionable operational decisions by the executive board, especially in procurement, where one decided to lease a highly diverse fleet of aircraft at non-competitive prices – practices that ignite suspicions of serious fraudulent collusion. One of the authors of this chapter (Peter) was called in by some professional directors to rectify the operational impasse of the passenger revenue system bought from British Airways during an earlier phase. The ineffectiveness of these decisions was likely due to either severe misjudgement or potential fraudulent collusion by at least one of the top management members.

On top of that, the tenure of most board members was closer to two years on average than the usual four years. Although supervisory board members could be appointed twice for a four-year term, only some would last that long; observers point out extensive political lobbying and nepotistic favouritism towards appointing supervisory board members in return for loyalty and financial favours. It should not be surprising that a lack of management consistency undermined the leadership direction at Garuda, which aggravated the mistrust between the supervisory and executive boards. During this phase, Garuda lost its strategic orientation. The management board needed to develop and install a proper corporate vision and consistent strategy.

Consequently, Garuda moved from an “Ambitious Airline” to a drifting “Surviving Airline” at that time. Despite clear corporate governance rules, Garuda – as an SOA – was occasionally able to circumvent those rules or call in exceptional measures. Hence, a balanced control involving external parties or external market mechanisms did not materialise to its full potential. Not surprisingly, Garuda started to generate substantial losses. It has been a loss-making national airline for years now. Garuda filed for Chapter 15 in a New York court to restructure the massive debt on its lease payments in mid-September 2022 (Reuters, 2022) (see Figure 8.3).



Source: Illustration by authors.

Figure 8.3 *Garuda’s development along with shifting government objectives 1999–2022*

Core Problems Underlying Garuda’s Development

From near bankruptcy, SOA Garuda developed into a commercially successful airline in line with its government stakeholders’ objectives. Industry experts agree that Garuda could develop into a premier competitive force in the international and regional areas, competing with reputable airlines like Singapore Airlines, Cathay Pacific, and Thai Airways. They won the coveted

Skytrax best service airline award a few years after the restructuring. Unfortunately, the surge to a premier "Ambitious Airline" did not last; complacency got the better of Garuda. And the successful, "Ambitious Airline" attracted the attention of ambitious politicians who wanted a piece of the cake. The board became a battleground for appointments, probably causing the slipping slope of erosion of competitive advantage and slipping back to the unfortunate position of a "Surviving Airline" instead of consolidating the competitive position of its initial success and moving to a valuable commercial, profitable airline, like its main nemesis, Singapore Airlines. Indeed, financial problems related to poor managerial decisions and a lack of appropriate board supervision finally caused the airline to decline and return to bankruptcy in 2022. The fiduciary duty of the board of commissioners remained unfulfilled. Worse, one can suspect that the supervisory board failed to commit to control and adequately steer the organisation towards appropriate opportunities. We argue that shortcomings in Garuda's corporate governance design have contributed to this development and distil a set of four major problems regarding the airline's management that persisted throughout the years in the following section.

The first significant problem we identify at Garuda is the *political power play* at work. As sketched out above, the SOA has been dominated by the influence of political representatives, which manifests itself in (i) a race for power and (ii) instances of corruption. Political representatives have exploited Garuda as an SOE in their favour because actors attempted to direct the airline in ways that fit into their political agenda. To get into a position with the possibility to use Garuda as a vehicle for political intents, the airline is paralysed due to fights among politicians aiming to secure power. This outcome hampers the organisation and draws attention away from the more critical business tasks. Besides using Garuda for (personal) political purposes, political actors even used legal loopholes or went beyond legal obligations to gain financial benefits for individual favour (Table 8.1).

One can describe Garuda as a *disillusioned organisation* in which managers did not try or dare to resist the political power play at hand. This mal-directed attention within Garuda undermined the company's focus on managing its business matters. It is particularly striking that in those years in which Garuda subsequently delivered positive financial results, the composition of the management and supervisory board was constant. In contrast, we observed frequent changes in board positions – especially in those phases in which financial performance was negative.

We identify *non-entrepreneurial DNA* as a third problem at Garuda. It is difficult to determine whether the lack of aspiration to improve business efficiency and financial performance results from political dominance paired with disillusionment at Garudas middle-line management – or whether the lack of entrepreneurial or professional spirit enabled politicians to take over the field. Nevertheless, it is striking that Garuda lacks a clear corporate strategy and managers who can translate strategy into business actions, especially in this phase of decline. What is specifically problematic for an airline is the absence of management experience from the aviation industry at Garuda's (supervisory) boards; individuals with political backgrounds dominated the boardroom.

Finally, we identify the *absence of checks and balances* as an impediment to Garuda's development. First and foremost, a lack of transparency regarding the state of the business to all decision-makers is remarkable. The management and supervisory board needed to share common ground on current issues. Moreover, the supervisory board refrains from demanding those insights in the first place. Besides this structural absence of control in the governance of Garuda, the supervisory board misses vital occasions to intervene in managerial decisions. However, such control is the inherent function of the board. This becomes problematic after 2003 when the overly costly aircraft purchase and fleet composition are not challenged internally.

Table 8.1 Observed issues at Garuda Indonesia

Dimension	Observed issues
Political Power Play (i) Race for power	• The exploitation of Garuda for political purposes • Fight for influence on the board among politicians • The exploitation of power at the board for individual purposes
(ii) Corruption	• Board staffing with politically accepted persons – nepotism • Access to "money pot"
Disillusioned Organisation	• No resistance by the board against the appointment of politicians to the board • Management and board member fluctuation • Corporate inertia
Non-entrepreneurial DNA	• Lack of aspiration for business efficiency and performance • No focus on a clear strategy or a unique "value proposition" despite its service excellence • No willingness to take business risks • Occasional lack of managerial and industry experience among appointed board members • Lack of market-related management objectives in executing a strategic plan • Lack of a well-defined corporate strategy (Garuda-Citilink)
Absence of Checks and Balances	• Ignorance of market principles • No transparency for stakeholders • Lack of transparency in decision-making • Deficiency in fulfilling the supervisory board's fiduciary duties of care, loyalty, and prudence • No challenging questioning/intervention/understanding by the supervisory board • Poor board interaction with senior managers and between the dual-tier board and the owner (the Minister of State Owned Enterprises)

Source: Created by authors.

IMPLICATIONS FOR SOA MANAGEMENT AND CORPORATE GOVERNANCE

Based on our analysis of Garuda's development above, we derive four takeaway lessons for governments, commissioners, and managers of SOAs regarding corporate governance practices to increase the chances of keeping their airlines afloat.

First, political influence in the supervisory board must be balanced by other stakeholders, such as further investors, employee representatives, social interest groups, and middle management (Johnson et al., 1996). For the management board, staffing should be executed based on objective criteria according to the duties of the tasks that need to be fulfilled instead of relying on contact persons from individual political networks (Ingley et al., 2003).

Second, despite state ownership, SOAs must acknowledge that they partially compete in a deregulated marketplace. It is necessary to have a substantial efficiency and profitability orientation within the management and supervisory board. This matter requires external control by financial markets, accountants, and the public. Furthermore, managers need to enforce managerial thinking in such political environments by ensuring the presence of an "Entrepreneurial DNA". This matter does not require privatisation but can be achieved in the SOE context by developing a well-defined corporate strategy that translates into precise cost and efficiency goals, as well as aspirational targets for the functions of individual managers (Belloc, 2014).

Third, having recommended both managerial self-assurance – as opposed to political influences – and entrepreneurial thinking, we recommend installing corporate governance rules for the interaction between supervisory and management boards (Bezemer et al., 2014). Situations where managers implement political orders without contributing their expertise need to be avoided. Moreover, corporate supervisors must use their internal control powers to limit political influences.

We see this non-interventionist and bureaucratic attitude as a result of malfunctioning corporate governance which is not aligned with corporate objectives. We recommend that SOAs define corporate objectives as clearly and explicitly as possible and adapt their corporate governance mechanisms accordingly. We indicated above the connection between formulated strategic objectives and appropriate internal or external control emphasis. SOAs mainly oriented toward public objectives might emphasise internal control mechanisms in their corporate governance design. SOAs with more prominent financial objectives must closely integrate external control mechanisms and remove potential "shields" of external corporate governance provisions (e.g., instrumental auditor selection; see Gomez-Aguilar & Ruiz-Barbadillo, 2003). Lastly, we recommend SOAs with mixed objectives to balance internal and external control to mirror the two intended strategic directions.

Finally, it is no surprise that Garuda's most successful period falls into the only period during which there was consistency in management and supervisory board staffing. This aligns with findings from the general strategy and corporate governance literature (e.g., Livnat et al., 2021), suggesting closer scrutiny of the relationship between tenure and professionalism of responsible decision-makers and board members, and the firm performance of SOAs.

CONCLUSION

Still, most of the world's airlines are partially owned by their home country governments. Ownership is a vehicle for governments to ensure that airlines contribute to their public and financial objectives – accordingly, these objectives influence the specific design of corporate governance mechanisms and provisions of SOAs. This chapter aimed to explore how changes in political objectives and associated control mechanisms of an SOA influence the effectiveness of a firm – which in itself can significantly fluctuate over time. We introduced the case of Garuda Indonesia and its development between 1999 and 2022, illustrating its movement between different governmental objectives with misaligned governance structures and varying financial performance. With the initial turnaround, Garuda proved successful by installing experienced managers and limiting political influence. Subsequently, when political forces turned to interfere more actively with its decision-making, Garuda's financial performance declined again. We suggested four significant challenges: (1) political dominance; (2) lack of entrepreneurial spirit; connected with (3) managerial disillusion; and (4) the absence of a power balance between politicians and managers to undergird Garuda's development toward bankruptcy.

This chapter directs attention to specific challenges of SOAs, particularly those publicly listed SOAs in Southeast Asian emerging markets. Any analysis should be aware that Western-oriented mechanisms that function elsewhere may not be applicable in Southeast Asia. Unique, informal, and often invisible mechanisms can trump proper governance and management. This includes nepotistic favouritism based on the principle of reciprocity, which quickly undermines agency theories or hands-off market mechanisms as we know them in the West. Although each region may be characterised by particular cultural aspects, in an internationally competitive industry like aviation, one cannot ignore that specific best management and governance practices should not be overlooked because Garuda's filing for Chapter 15 could have been avoided. Finding a balance between local cultural sensitivities and best management and corporate governance practices in a fiercely combative industry like airlines could be a lesson for other regional airlines.

We suggest future research efforts to amend our typology on SOAs with other cases within the aviation industry or other markets. One focus area might be to detail characteristic corporate governance elements of each type of airline or the primary objectives of state ownership, respectively. The four problem areas identified in this chapter may be instrumental as potential foci for further assessments of underlying mechanisms of governance deficiencies that might cause corporate failure.

NOTES

1. Note that shining positive examples exist where government and government policy towards their airlines have been consistent over time (Singapore and Singapore Airlines; Dubai and Emirates Airline), and these airlines have been performing quite well (Lohmann et al., 2009).
2. These periods of inconsistency can also be seen as unfinished or embryonic organisational change processes (Greenwood & Hinings, 1988).

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