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Operational Slack as a Strategic Capability: The Role of Service Reliability in Enhancing Financial Resilience in the Airline Industry

Dr. Priya Singh[1], Jyoti Nain[2], Adyasa Padhi[3]
[1] Department of Aviation Management, School of Aviation, Logistics and Tourism Management, Galgotias University, Greater Noida, Uttar Pradesh, India.
ORCID: 0000-0002-1484-8665
Email: priyasingh@galgotiasuniversity.edu.in

[2] Department of Finance, School of Management, Galgotias University, Greater Noida, Uttar Pradesh, India.
ORCID: 0000-0001-7136-394X
Email: jyotinain@galgotiasuniversity.edu.in

[3] Department of Healthcare Management (Interdisciplinary), School of Business, Galgotias University, Greater Noida, Uttar Pradesh, India.
ORCID: 0000-0002-3637-4480
Email: adyasa.padhi@galgotiasuniversity.edu.in.

ABSTRACT

The airline industry is characterized by substantial operational uncertainty arising from demand fluctuations, weather disruptions, technical failures, labour constraints, fuel-price volatility, air-traffic congestion, and unexpected capacity shocks. In such an environment, excessive resource efficiency may reduce an airline's ability to absorb operational disturbances, while strategically maintained operational slack may provide the flexibility required to preserve service continuity and financial stability. This study empirically investigates operational slack as a strategic capability and examines the mediating role of service reliability in strengthening financial resilience among airlines. Using a panel dataset of airlines covering multiple operating periods, the study develops quantitative measures of operational slack, service reliability, and financial resilience and applies descriptive statistics, correlation analysis, panel regression, robustness tests, and mediation analysis to evaluate the proposed relationships. Operational slack is measured through selected indicators of available capacity, workforce flexibility, fleet and maintenance resources, and other operational buffers, while service reliability is assessed using indicators such as flight completion, punctuality, schedule consistency, and disruption management. Financial resilience is evaluated through indicators reflecting profitability stability, liquidity, cash-flow strength, and the ability to withstand adverse operating conditions. The empirical framework tests whether operational slack directly improves service reliability and whether improved reliability subsequently enhances financial resilience. Particular attention is given to the indirect effect of operational slack through service reliability. The study is expected to demonstrate that appropriately calibrated operational slack can function as a strategic resource rather than merely representing excess cost. By empirically connecting operational resources, service outcomes, and financial resilience, the study contributes to airline operations and strategic management literature and provides evidence for resource-allocation decisions under uncertain operating conditions.

Keywords: Operational Slack; Service Reliability; Financial Resilience; Airline Industry; Panel Data; Mediation Analysis; Operational Flexibility; Airline Performance; Organizational Resilience; Strategic Capability.

INTRODUCTION

The airline industry represents a highly interconnected service system in which operational efficiency, service reliability, and financial performance are closely interdependent. Airlines operate with substantial exposure to demand uncertainty, weather conditions, air-traffic restrictions, aircraft unavailability, labour shortages, maintenance requirements, fuel-price volatility, and other external disruptions. Unlike many conventional service industries, a disruption affecting one aircraft, crew, airport, or route can propagate through an airline's network and generate delays, cancellations, missed connections, passenger dissatisfaction, additional operating costs, and revenue losses. Consequently, the ability to maintain reliable operations during periods of uncertainty has become an important component of airline competitiveness and organizational resilience [1], [2].

Operational reliability is particularly important because airline schedules are designed around tightly coordinated resources. Aircraft rotations, crew assignments, airport slots, maintenance activities, and connecting passenger flows create substantial interdependence across the operating system. Research on airline schedule reliability demonstrates that limited buffer time and stochastic operational disruptions can produce significant delay propagation, indicating that schedules incorporating appropriate operational buffers are more capable of absorbing uncertainty [3]. Thus, operational efficiency based solely on minimizing unused resources may not necessarily represent optimal resource management. Maintaining a strategically appropriate level of spare capacity and flexibility may instead provide airlines with the ability to absorb disturbances while maintaining service continuity.

This perspective introduces the concept of **operational slack**. Organizational slack broadly refers to resources available to an organization beyond the minimum level required for its immediate operations. Bourgeois argued that slack can provide organizations with flexibility and facilitate strategic behaviour under uncertainty, while also emphasizing the importance of developing appropriate empirical measures of slack [4]. Subsequent empirical research has demonstrated that the relationship between slack and organizational performance is not necessarily linear. Different forms of slack can influence organizational outcomes differently, and excessive slack may generate inefficiency while insufficient slack can constrain an organization's ability to respond to uncertainty [5], [6]. Consequently, operational slack should not simply be interpreted as idle or wasted resources; under uncertain operating conditions, it may represent a strategically valuable capacity for response and recovery.

The relevance of this argument is particularly evident in airline operations. Airlines must balance the economic benefits of high utilization against the operational benefits of maintaining buffers. High aircraft utilization, tightly sequenced schedules, optimized crew deployment, and minimal spare capacity can reduce unit costs under normal conditions. However, when disruptions occur, an excessively lean operating configuration may leave little capacity to recover from delays or cancellations. Additional aircraft availability, crew flexibility, maintenance capacity, schedule buffers, and other operational resources can enable an airline to absorb disruption and restore normal operations more rapidly. Empirical evidence from the U.S. airline industry indicates that operational slack can reduce the negative effects of flight cancellations on perceived service quality, although its effect may become nonlinear beyond an appropriate level [7].

Service reliability therefore provides an important mechanism through which operational resources may influence broader organizational outcomes. In an airline context, reliability extends beyond conventional perceptions of service quality and includes the ability to deliver the promised service consistently and predictably. Punctual departures and arrivals, flight completion, low cancellation rates, schedule adherence, and effective disruption recovery are important manifestations of this reliability. Earlier research has demonstrated that airline service quality is associated with passenger behavioural intentions and customer evaluations [8], [9]. Reliability consequently has implications not only for operational performance but also for customer retention, reputation, revenue stability, and the costs associated with service recovery.

The financial consequences of unreliable service can be substantial. Delays and cancellations may generate compensation expenses, rebooking costs, crew and aircraft repositioning expenses, airport-related charges, lost ancillary revenues, and reputational damage. At the same time, persistent reliability problems may weaken customer loyalty and negatively affect future demand. Research examining airline business strategy and service failures has established a connection between service failures, customer perceptions, and financial performance, suggesting that operational decisions can have consequences extending beyond immediate service outcomes [10]. Therefore, service reliability can potentially function as a transmission mechanism connecting operational resource availability with financial outcomes.

Financial resilience is particularly important in this context. Airline financial performance is highly sensitive to external shocks because airlines operate with significant fixed costs, capital-intensive assets, complex networks, and relatively limited flexibility in the short-term adjustment of capacity. Previous research has shown that major external shocks can produce substantial effects on airline financial performance and stock-market valuation [11]. Empirical examination of airline operational and financial performance further indicates that the efficient utilization of resources and the conversion of operational inputs into financial outcomes are closely connected [12]. These characteristics make financial resilience different from conventional profitability: a financially resilient airline should possess the capacity not merely to generate profits during favourable conditions but also to absorb adverse shocks, preserve liquidity and operational continuity, and recover its financial position following disruption.

Despite the importance of these relationships, the existing literature has generally examined operational slack, service reliability, and financial performance as partially separate issues. Studies of organizational slack have primarily concentrated on resource allocation and firm performance [4]–[6], while airline operations research has emphasized schedule reliability, disruption management, and operational efficiency [3], [7]. Similarly, airline service-quality research has largely focused on customer perceptions and behavioural consequences [8], [9]. Although these streams collectively indicate that operational resources can affect service outcomes and that service outcomes can affect organizational performance, comparatively less empirical attention has been given to **how operational slack is translated into financial resilience through service reliability**.

This study addresses this gap by developing and empirically testing an integrated relationship among operational slack, service reliability, and financial resilience in the airline industry. The central argument is that strategically maintained operational slack can provide airlines with the flexibility required to absorb operational disturbances, thereby improving service reliability. Improved reliability can subsequently reduce disruption-related costs, protect customer demand and revenues, support operational continuity, and contribute to greater financial resilience. The study therefore does not assume that more slack is universally beneficial. Instead, it examines operational slack as a potentially strategic resource whose value depends on its capacity to strengthen reliable service delivery and ultimately support financial stability.

Accordingly, the study pursues three principal objectives: first, to empirically examine the effect of operational slack on service reliability; second, to assess the effect of service reliability on airline financial resilience; and third, to determine whether service reliability mediates the relationship between operational slack and financial resilience. By testing these relationships using airline-level empirical data, the study seeks to connect operations management with strategic and financial resilience research. Its principal contribution lies in repositioning operational slack from a conventional measure of excess resources toward a potential strategic capability that creates value when deployed to preserve reliable service under uncertain operating conditions.

2. Literature Review

2.1 Operational Slack as a Strategic Resource

The concept of organizational slack originates from the recognition that firms frequently possess resources exceeding those immediately required for their minimum operating activities. Bourgeois conceptualized slack as an organizational resource that can reduce pressures associated with resource scarcity and provide flexibility for organizational action [4]. Importantly, slack is not restricted to financial reserves. It can emerge in human resources, production capacity, inventory, managerial resources, time, and other forms of organizational capability.

The empirical measurement of slack has subsequently received considerable attention. Bourgeois proposed measures that could be derived from secondary financial information, establishing an important basis for quantitative investigation of the construct [4]. Singh further demonstrated that organizational slack can influence managerial decision-making and risk-taking behaviour, suggesting that slack affects organizational responses to uncertainty rather than merely representing unused resources [5]. George's longitudinal examination similarly found that different forms of slack can have different consequences for organizational performance, reinforcing the argument that the **type and level of slack** matter when assessing its organizational value [6].

The literature therefore presents a dual interpretation of slack. From one perspective, excessive slack can increase costs, weaken managerial discipline, and reduce efficiency. From another, inadequate slack can expose organizations to operational vulnerability because there are insufficient resources to respond to unexpected events. Daniel et al.'s meta-analysis further indicates that the relationship between slack and firm performance is complex and depends on how slack is conceptualized and measured [13]. Nohria and Gulati also demonstrate that slack can influence innovation through a balance between resource availability and organizational discipline [14]. These findings imply that slack should be evaluated according to its strategic function rather than simply being classified as excess capacity.

This argument is particularly relevant to airlines because operational systems are exposed to stochastic disruptions. Aircraft, crews, maintenance resources, airport infrastructure, and schedules must be coordinated continuously, and even small deviations can propagate through the network. Operational slack can therefore include spare aircraft availability, additional crew capacity, maintenance buffers, schedule recovery time, flexible resource allocation, and other forms of capacity that provide response options when normal operations are disrupted.

2.2 Operational Slack and Airline Service Reliability

Airline service reliability depends heavily on the interaction between planned resources and uncertain operating conditions. Traditional airline scheduling seeks high asset utilization and efficient resource deployment; however, schedules with insufficient buffers may become vulnerable to delay propagation. Researchers examining airline schedule reliability have shown that limited buffer times can contribute to inherent delays and that appropriately designed buffers are necessary for robust and reliable schedules [3].

The operational-slack perspective extends this argument by considering buffers not simply as scheduling parameters but as organizational resources. When spare resources are available, airlines may have greater capacity to substitute aircraft, reassign crews, accommodate maintenance requirements, recover disrupted rotations, or reduce the propagation of delays. Thus, operational slack can potentially enhance service reliability by increasing the number of feasible responses available to operational managers.

Direct empirical evidence supports this proposition. Parast and Golmohammadi examined U.S. airline data and found that operational slack moderated the effects of flight cancellations on service quality [7]. Their results also indicated that the effect was nonlinear, implying that increasing slack does not continuously generate proportional improvements in service outcomes. This is important for the present study because it suggests that operational slack should be conceptualized as a **strategically calibrated capability**, rather than assuming a simple "more is better" relationship.

Service reliability also represents a particularly appropriate outcome for evaluating operational slack because it captures the ability of an airline to convert available operational resources into consistent service delivery. Unlike a purely cost-based efficiency measure, reliability reflects whether the airline can continue meeting its service commitments when operating conditions deviate from plan. The relationship between operational slack and reliability is therefore theoretically consistent with the broader organizational-resilience argument that resource flexibility improves the capacity to absorb and respond to disruptions.

2.3 Service Reliability in the Airline Industry

Service reliability is a central dimension of airline service performance because customers purchase transportation with implicit expectations concerning timing, availability, continuity, and consistency. The broader service-quality literature establishes reliability as an important dimension of perceived service performance [15]. In aviation, reliability can be reflected through measurable operational indicators such as on-time performance, flight completion, cancellation frequency, schedule adherence, and recovery from operational disruptions.

Research specifically focused on airlines has established that service quality has significant implications for passenger evaluations and behavioural intentions. Ostrowski et al. demonstrated the relationship between airline service quality and customer loyalty [8], while Park et al. found that airline service quality influences passengers' behavioural intentions [9]. These findings indicate that operational service outcomes can extend beyond immediate operational statistics and influence future customer behaviour.

The importance of reliability becomes even greater when service failures occur. A delayed or cancelled flight can generate dissatisfaction not only because of the immediate inconvenience but also because of missed connections, additional travel time, uncertainty, and associated costs. Airline customers may therefore evaluate the firm not solely according to normal service quality but also according to how effectively the airline manages unexpected disruptions.

From an empirical perspective, this creates an important distinction between **service quality** and **service reliability**. Service quality can encompass multiple perceptual dimensions, whereas reliability is more directly connected to whether the promised service is delivered consistently. For the present study, reliability is particularly valuable because it can be operationalized using objective airline performance indicators and subsequently linked with financial outcomes.

2.4 Service Reliability and Financial Performance

The relationship between service performance and financial outcomes can be explained through both revenue and cost mechanisms. Reliable service can support customer retention, protect brand reputation, reduce complaints, and maintain future demand. Conversely, delays and cancellations can increase service-recovery costs, compensation obligations, rebooking requirements, and resource inefficiencies. Consequently, reliability can affect both the revenue-generating and cost-management sides of airline performance.

Empirical research in the airline industry has established relationships between service failures, customer perceptions, business strategy, and financial performance [10]. This suggests that service outcomes should not be treated as purely operational measures. Instead, they can form an important pathway through which operational decisions ultimately influence financial results.

The financial significance of reliability becomes particularly apparent under adverse conditions. An airline experiencing repeated operational failures may face simultaneous cost escalation and revenue deterioration. Additional aircraft and crew deployment, passenger accommodation, compensation, schedule reconstruction, and network recovery can increase operating expenditure, while customer dissatisfaction can affect future bookings. In contrast, an airline capable of maintaining reliable operations during disruptions may limit these costs and preserve revenue-generating capacity.

This relationship is consistent with research demonstrating the vulnerability of airlines to major external shocks. Studies of airline financial resilience during the COVID-19 period show that sudden reductions in passenger demand and associated revenue and cash-flow pressures can produce substantial financial consequences [11]. Such evidence reinforces the importance of examining resilience as a broader construct rather than relying exclusively on conventional profitability measures.

2.5 Financial Resilience of Airlines

Financial resilience refers to an organization's capacity to absorb financial shocks, sustain critical activities, and recover its financial position following adverse events. The concept is particularly applicable to airlines because the sector combines high fixed costs, capital-intensive assets, exposure to volatile demand, and strong dependence on external operating conditions.

An airline may remain profitable during normal market conditions while still being financially fragile if a relatively short disruption produces severe liquidity or cash-flow pressures. Financial resilience therefore requires consideration of the organization's ability to maintain financial stability across changing conditions. Measures such as profitability stability, operating cash flow, liquidity, revenue stability, and recovery following negative shocks can collectively provide a more comprehensive assessment than a single-period profitability measure.

Empirical airline research supports the importance of considering operational and financial performance jointly. An evaluation of U.S. airlines demonstrated that operational efficiency and financial performance are connected through the organization's ability to transform resources into financial outcomes [12]. This provides an important foundation for investigating whether service reliability represents one of the mechanisms through which operational resources contribute to financial resilience.

2.6 Mediating Role of Service Reliability

The literature reviewed above indicates three potentially connected relationships. First, operational slack can provide airlines with additional flexibility to absorb and manage disruptions [3], [7]. Second, reliable service can influence customer responses and the consequences of service failures [8]–[10]. Third, operational disruptions can affect airline financial performance and resilience [11], [12]. These relationships collectively suggest that service reliability may function as an intermediary mechanism rather than merely an independent outcome.

The proposed mediation logic is that operational slack creates **response capacity**, response capacity improves **service reliability**, and reliable service contributes to **financial resilience**. This perspective is consistent with the resource-based view, under which valuable and difficult-to-substitute resources can contribute to sustained organizational capabilities [16]. It is also consistent with dynamic-capability reasoning, in which organizational resources acquire strategic value through the ability to adapt and respond to changing environmental conditions [17].

The mediation perspective provides a more complete explanation than examining only the direct relationship between operational slack and financial performance. Operational slack may entail additional costs when maintained, meaning that its financial value cannot be assumed automatically. Its strategic value becomes more plausible when the additional resources produce measurable improvements in service reliability that offset or exceed their associated costs. Thus, the relevant question is not simply whether airlines with more slack perform better financially, but **whether operational slack improves financial resilience because it enables airlines to deliver more reliable service under uncertain conditions**.

This distinction is central to the present empirical study. Existing evidence has already established a relationship between operational slack and airline service outcomes [7], while broader research has established relationships between service performance and organizational outcomes. However, comparatively limited empirical work has integrated these relationships into a single model in which service reliability is explicitly tested as the mediating mechanism between operational slack and financial resilience.

Accordingly, the present study proposes that operational slack should be evaluated as a strategic capability whose effectiveness is reflected in the reliability of service delivery. The empirical framework therefore examines whether operational slack significantly predicts service reliability, whether service reliability significantly predicts financial resilience, whether operational slack has a direct effect on financial resilience, and whether the indirect effect through service reliability is statistically significant. This integrated approach provides a basis for understanding how airlines can balance efficiency with resilience and how operational resource decisions can ultimately influence financial stability.

3. Conceptual Framework and Hypothesis Development

3.1 Conceptualization of Operational Slack

Operational slack represents the availability of operational resources beyond the minimum level required to maintain routine airline activities. In the airline industry, slack can arise through spare aircraft capacity, additional crew availability, maintenance resources, schedule buffers, flexible capacity, and other resources that provide managerial discretion during periods of operational uncertainty. Unlike conventional efficiency measures that emphasize maximum utilization, operational slack reflects the extent to which an airline retains resources that can be redeployed when actual operating conditions deviate from planned conditions.

The strategic value of slack depends on its ability to absorb uncertainty without creating excessive resource costs. An airline operating with extremely high utilization may achieve favourable cost efficiency under stable conditions but can become vulnerable when a disruption occurs because there are few resources available for substitution or recovery. Conversely, excessive unused capacity may impose unnecessary costs. The appropriate strategic objective is therefore not maximization of slack but the maintenance of an **adequate and economically sustainable operational buffer**.

For empirical analysis, operational slack can be represented through multiple complementary indicators. A composite operational-slack index is particularly appropriate because no single measure adequately captures the multidimensional nature of airline operating buffers.

Table 1. Operationalization of Operational Slack

Dimension	Indicator	Measurement Approach	Strategic Interpretation
Capacity slack	Available seat capacity buffer	1 − Load Factor	Unutilized capacity available to absorb demand or operational shocks
Fleet slack	Aircraft availability buffer	Available aircraft relative to scheduled requirement	Ability to substitute aircraft during disruptions
Workforce slack	Employee/capacity buffer	Employees relative to traffic or capacity	Availability of labour for schedule recovery
Schedule slack	Schedule buffer	Buffer time between planned operating activities	Ability to absorb delays without cascading effects
Maintenance slack	Maintenance capacity buffer	Available maintenance resources relative to scheduled	Ability to respond to technical disruptions

		requirement	
Financial-operational buffer	Current resources supporting operations	Liquidity and operating-resource indicators	Capacity to sustain operations during temporary shocks

A standardized composite measure may subsequently be developed by converting each indicator into a comparable scale and aggregating the standardized components. This approach reduces dependence on any individual operational indicator and provides a broader representation of the airline's resource flexibility.

3.2 Service Reliability as an Operational Outcome

Service reliability represents an airline's ability to deliver its scheduled service consistently, predictably, and with minimal disruption. It differs from general customer-perceived service quality because reliability can be measured substantially through objective operational outcomes. In this study, the principal dimensions are on-time performance, flight completion, cancellation frequency, and schedule consistency.

Higher reliability indicates that an airline can maintain its planned operating system despite disturbances. A high flight-completion rate reflects the ability to avoid cancellations, while stronger punctuality indicates that the airline can control delay propagation. These indicators jointly capture the operational continuity experienced by passengers and provide a suitable bridge between operational resources and financial outcomes.

A composite service reliability index can therefore be constructed from standardized measures of punctuality, completion, and cancellation performance, with cancellation treated inversely because a higher cancellation rate represents lower reliability.

Table 2. Measurement of Service Reliability

Dimension	Indicator	Expected Direction	Relevance
Punctuality	On-time performance (%)	+	Measures schedule adherence
Flight completion	Completion rate (%)	+	Measures continuity of scheduled services
Cancellation	Cancellation rate (%)	−	Captures service disruption
Schedule consistency	Schedule adherence index	+	Measures predictability of operations
Recovery capability	Recovery from operational disruption	+	Reflects ability to restore normal operations

The service reliability index can be expressed as:

$$SR_{it} = \frac{Z(OTP_{it}) + Z(FCR_{it}) + Z(SCA_{it}) - Z(CR_{it})}{4}$$

where SR_{it}represents service reliability for airline iin year t, OTPdenotes on-time performance, FCRrepresents flight-completion rate, SCArepresents schedule consistency/adherence, and CRrepresents cancellation rate. Zdenotes standardized values.

3.3 Financial Resilience

Financial resilience extends beyond conventional profitability by capturing an airline's capacity to withstand financial stress and recover following adverse operating conditions. An airline with high financial resilience should be able to maintain liquidity, generate sufficient operating cash flow, preserve revenue-generating capacity, and recover profitability following temporary shocks.

The study therefore proposes a multidimensional financial resilience measure incorporating profitability, liquidity, cash-flow capacity, revenue stability, and recovery performance. This approach is preferable to using a single financial ratio because resilience is fundamentally a capacity to absorb and recover from adverse conditions.

Table 3. Measurement of Financial Resilience

Dimension	Indicator	Expected Direction	Interpretation
Profitability	Return on Assets (ROA)	+	Efficiency of asset utilization
Operating performance	Operating margin	+	Strength of core airline operations
Liquidity	Current ratio / liquidity ratio	+	Ability to meet short-term obligations
Cash generation	Operating cash flow / assets	+	Internal capacity to absorb shocks
Revenue stability	Revenue volatility (inverse)	−	Stability of revenue generation
Recovery	Post-shock profitability recovery	+	Ability to restore financial performance

The composite financial resilience index can be constructed as:

$$FR_{it} = \sum_{j=1}^{k} w_j \, Z(X_{jit})$$

where FR_{it}represents financial resilience, X_{jit}represents the jth financial-resilience indicator, $w_j$represents the assigned indicator weight, and Zrepresents standardized values. Equal weighting can be used where there is no theoretical basis for assigning differential weights.

3.4 Operational Slack and Service Reliability

Operational slack is expected to improve service reliability because resource buffers provide airlines with greater flexibility to respond to disruptions. Spare aircraft can replace technically unavailable aircraft, reserve crew can reduce the consequences of crew shortages, maintenance capacity can accelerate technical recovery, and schedule buffers can prevent small delays from propagating throughout an airline's network.

The absence of sufficient slack creates a tightly coupled operating structure in which an isolated disruption can produce cascading consequences. For example, a delayed aircraft can arrive late for its subsequent sector, causing crew displacement, passenger connection problems, further delays, and eventual cancellation. Additional operational resources can interrupt this chain by providing alternative response options.

The relationship is therefore expected to be positive:

Operational Slack → Service Reliability

H1: Operational slack has a significant positive effect on service reliability in the airline industry.

The expected relationship should nevertheless be interpreted within the context of resource efficiency. Slack that is unrelated to operational requirements may impose costs without generating equivalent reliability benefits. Consequently, the empirical analysis should also test the robustness of the relationship using alternative slack measures and, where data permit, nonlinear specifications.

3.5 Service Reliability and Financial Resilience

Reliable airline operations can contribute to financial resilience through several channels. First, reliable services reduce disruption-related costs associated with passenger rebooking, compensation, accommodation, crew repositioning, aircraft substitution, and schedule reconstruction. Second, reliability can protect customer satisfaction and repeat demand. Third, consistent operations can strengthen revenue predictability and reduce the financial volatility associated with major disruptions.

The financial effect of reliability is particularly important during periods of industry stress. When airlines experience adverse external conditions, firms capable of maintaining service continuity may incur lower disruption costs and preserve a greater portion of their revenue-generating capability.

Accordingly:

Service Reliability → Financial Resilience

H2: Service reliability has a significant positive effect on financial resilience in the airline industry.

3.6 Operational Slack and Financial Resilience

Operational slack may also influence financial resilience directly. Additional operational resources can allow airlines to respond to shocks more rapidly, preserve network connectivity, reduce the duration of disruptions, and maintain revenue-generating operations. In this sense, slack can function as an organizational buffer against external uncertainty.

However, the direct financial effect is theoretically ambiguous. Maintaining spare resources generates costs, including idle aircraft costs, additional personnel costs, and potentially lower asset utilization. The positive financial effect of slack should therefore emerge when the resilience benefits generated by those resources exceed their associated costs.

H3: Operational slack has a significant positive effect on financial resilience in the airline industry.

3.7 Mediating Role of Service Reliability

The central contribution of the study is the proposition that operational slack affects financial resilience partly through service reliability.

Operational slack provides resources for responding to disruptions. These resources improve the airline's ability to maintain scheduled operations and recover from unexpected events. Improved service reliability then protects revenue, reduces disruption-related costs, supports customer retention, and stabilizes operating performance. Thus, reliability represents a mechanism through which operational resources can generate financial resilience.

The proposed mediation relationship is:

Operational Slack → Service Reliability → Financial Resilience

H4: Service reliability significantly mediates the relationship between operational slack and financial resilience in the airline industry.

A significant indirect effect would indicate that the financial value of operational slack is partly realized through improved service reliability. If both the direct and indirect effects are significant and operate in the same direction, the results would support complementary mediation. If the indirect effect is significant while the direct effect becomes statistically insignificant, the evidence would be consistent with indirect-only mediation.

3.8 Control Variables

The empirical relationship may be influenced by characteristics unrelated to the proposed theoretical mechanism. Accordingly, airline size, leverage, profitability, fleet size, fleet age, passenger load factor, and demand growth should be incorporated as control variables.

Table 4. Control Variables

Control Variable	Measurement	Expected Influence
Airline size	Natural logarithm of total assets/revenue	Positive
Leverage	Total debt / total assets	Negative
Fleet size	Number of aircraft	Positive/ambiguous
Fleet age	Average aircraft age	Negative
Load factor	Revenue passenger kilometres / available seat kilometres	Positive/ambiguous
Revenue growth	Annual percentage change in revenue	Positive
Pre-shock profitability	Lagged ROA/operating margin	Positive
Airline type	Full-service/low-cost indicator	Context dependent
Year	Year fixed effects	Controls common temporal shocks

3.9 Integrated Conceptual Framework

The proposed empirical framework integrates resource availability, operational outcomes, and financial resilience. Operational slack represents the independent variable, service reliability represents the mediator, and financial resilience represents the dependent variable. Firm-level and industry-level characteristics are introduced as controls.

Table 5. Summary of Hypothesized Relationships

Hypothesis	Relationship	Expected Sign	Proposed Test
H1	Operational Slack → Service Reliability	+	Panel regression
H2	Service Reliability → Financial Resilience	+	Panel regression
H3	Operational Slack → Financial Resilience	+	Panel regression
H4	Operational Slack → Service Reliability → Financial Resilience	+	Bootstrap mediation

The resulting framework provides a direct empirical pathway from operational resource flexibility to service outcomes and subsequently to financial resilience. It also permits examination of whether operational slack creates financial value directly or predominantly through its effect on reliable service delivery.

4. Research Methodology

4.1 Research Design

The study adopts a **quantitative explanatory research design** using longitudinal airline-level data. A panel-data framework is appropriate because the research investigates relationships that vary both across airlines and over time. The longitudinal design also allows the analysis to distinguish persistent differences between airlines from changes associated with variations in operational slack, service reliability, and financial conditions.

The preferred empirical period is **2015–2025**, subject to consistent data availability. This period provides observations covering relatively stable operating environments as well as periods of severe disruption, particularly the COVID-19 shock and subsequent recovery. The inclusion of multiple years improves statistical variation and enables the study to examine whether the proposed relationships remain stable under substantially different operating conditions.

4.2 Population and Sample Selection

The population comprises commercial passenger airlines for which sufficiently consistent operational and financial information is available. The sample should prioritize airlines with publicly available annual financial statements and standardized operational indicators.

A purposive sampling approach is appropriate because the study requires longitudinal observations for the same variables rather than simply maximizing the number of airlines. Airlines should be retained when they satisfy the following criteria:

Availability of annual financial information for a substantial portion of the study period.

Availability of operational indicators required to measure service reliability.

Availability of sufficient information for calculating operational slack.

Consistent reporting of financial variables.

Identification of airline-level observations across the study period.

Absence of excessive missing observations that would compromise panel estimation.

Where individual variables are unavailable for particular years, the treatment of missing observations should be reported transparently and should not involve arbitrary replacement of unavailable financial or operational information.

4.3 Data Collection and Variable Construction

Secondary data should be collected from airline annual reports, audited financial statements, investor disclosures, official operational statistics, aviation-industry databases, and recognized aviation performance sources.

The unit of analysis is the **airline-year observation**. Thus, an airline observed for ten consecutive years contributes ten potential observations to the panel.

The principal variables are:

Operational Slack (OS) — independent variable

Service Reliability (SR) — mediating variable

Financial Resilience (FR) — dependent variable

Firm size, leverage, fleet characteristics, load factor, revenue growth, and lagged profitability are included as control variables.

Table 6. Variable Definition and Measurement

Variable	Symbol	Measurement	Role
Operational Slack	OS	Composite standardized operational-resource buffer	Independent
Service Reliability	SR	Composite reliability index	Mediator
Financial Resilience	FR	Composite financial resilience index	Dependent
Firm Size	SIZE	ln(Total Assets)	Control
Leverage	LEV	Total Debt / Total Assets	Control
Fleet Size	FLEET	Number of aircraft	Control
Fleet Age	AGE	Average aircraft age	Control
Load Factor	LF	RPK / ASK	Control
Revenue Growth	RG	Annual revenue growth	Control
Prior Profitability	LROA	Lagged ROA	Control
Year	YEAR	Annual time indicator	Fixed effect
Airline	AIRLINE	Airline identifier	Fixed effect

4.4 Data Preparation and Index Construction

Because the principal constructs are multidimensional, individual indicators should first be transformed into standardized values. Standardization is particularly important because the variables are measured on different scales, including percentages, financial ratios, monetary values, and operational counts.

For a positive indicator:

$$Z_{it} = \frac{X_{it} - \overline{X}}{SD(X)}$$

For an inverse indicator such as cancellation rate or revenue volatility:

$$Z^{*}_{it} = -\frac{X_{it} - \overline{X}}{SD(X)}$$

The standardized indicators can then be aggregated into composite indices. Equal weighting provides a transparent baseline specification, while alternative weighting methods can be employed as robustness checks.

To avoid excessive dependence on a single indicator, the operational-slack index should preferably incorporate at least three dimensions where reliable data are available. Similarly, the service-reliability index should incorporate multiple operational indicators rather than relying exclusively on on-time performance.

4.5 Econometric Model Specification

4.5.1 Model 1: Operational Slack and Service Reliability

The first model evaluates whether operational slack improves service reliability:

$$SR_{it} = \alpha_0 + \alpha_1 OS_{it} + \sum_{k=1}^{K} \beta_k \, Control_{kit} + \mu_i + \lambda_t + \varepsilon_{it}$$

where SR_{it}represents service reliability for airline iin year t, OS_{it}represents operational slack, $Control_{kit}$represents control variables, $\mu_i$captures airline-specific effects, $\lambda_t$captures year-specific effects, and $\varepsilon_{it}$is the error term.

A positive and statistically significant $\alpha_1$supports H1.

4.5.2 Model 2: Service Reliability and Financial Resilience

The second model examines whether service reliability contributes to financial resilience:

$$FR_{it} = \gamma_0 + \gamma_1 SR_{it} + \sum_{k=1}^{K} \delta_k \, Control_{kit} + \mu_i + \lambda_t + \nu_{it}$$

A positive and statistically significant $\gamma_1$supports H2.

4.5.3 Model 3: Direct Effect of Operational Slack

The third model estimates the direct relationship between operational slack and financial resilience:

$$FR_{it} = \theta_0 + \theta_1 OS_{it} + \sum_{k=1}^{K} \phi_k \, Control_{kit} + \mu_i + \lambda_t + \omega_{it}$$

A positive and significant $\theta_1$provides evidence in support of H3.

4.5.4 Model 4: Integrated Mediation Model

The final model simultaneously incorporates operational slack and service reliability:

$$FR_{it} = \rho_0 + \rho_1 OS_{it} + \rho_2 SR_{it} + \sum_{k=1}^{K} \psi_k \, Control_{kit} + \mu_i + \lambda_t + \eta_{it}$$

The indirect effect of operational slack through service reliability is assessed as:

$$IE = \alpha_1 \times \rho_2$$

where IErepresents the indirect effect.

Statistical significance should preferably be assessed using **bootstrap confidence intervals**, with a minimum of 5,000 bootstrap replications. Mediation is supported when the confidence interval for the indirect effect does not include zero.

4.6 Panel Estimation Strategy

The empirical analysis should initially estimate pooled ordinary least squares models for benchmarking. Fixed-effects and random-effects models should then be estimated to account for unobserved airline-specific heterogeneity.

The Hausman specification test should guide the principal choice between fixed-effects and random-effects estimation. Given the likelihood that unobserved airline characteristics—such as management philosophy, brand positioning, network structure, and organizational culture—are correlated with operational slack and service reliability, **fixed-effects estimation is expected to provide the more conservative principal specification**.

Year fixed effects should be included to capture common industry shocks such as global demand fluctuations, fuel-price changes, regulatory changes, and pandemic-related effects.

Standard errors should be clustered at the airline level to address within-airline dependence and heteroskedasticity.

4.7 Diagnostic and Robustness Analysis

The credibility of the empirical findings should be evaluated through a comprehensive set of diagnostic procedures.

Table 7. Proposed Diagnostic and Robustness Tests

Test	**Purpose**	**Decision/Interpretation**
VIF	Multicollinearity	VIF preferably below 5
Correlation matrix	Preliminary association	Identifies strong pairwise relationships
Breusch–Pagan/Wald test	Heteroskedasticity	Determines variance instability
Wooldridge test	Serial correlation	Tests within-panel autocorrelation
Hausman test	Model selection	Fixed vs. random effects
Pesaran/CD-type test	Cross-sectional dependence	Tests common dependence across airlines
Clustered standard errors	Inference correction	Controls within-airline dependence
Alternative variable definitions	Measurement robustness	Tests sensitivity to index construction
Lagged OS	Reverse-causality reduction	Tests temporal ordering
Excluding extreme observations	Outlier robustness	Tests whether results depend on influential cases
Alternative financial measures	Construct robustness	Tests financial-resilience consistency
Bootstrap mediation	Indirect-effect inference	Provides confidence interval for mediation

4.8 Endogeneity and Temporal Ordering

A potential concern is reverse causality. Financially stronger airlines may possess greater resources and consequently maintain more operational slack, while operational slack itself may contribute to financial resilience. Similarly, airlines with better service reliability may have greater financial resources available for maintaining operational buffers.

To mitigate this concern, the empirical analysis should include lagged operational slack where data permit:

$$SR_{it} = \alpha_0 + \alpha_1 OS_{i,t-1} + \sum \beta_k \, Control_{kit} + \mu_i + \lambda_t + \varepsilon_{it}$$

and:

$$FR_{it} = \gamma_0 + \gamma_1 SR_{i,t-1} + \gamma_2 OS_{i,t-1} + \sum \delta_k \, Control_{kit} + \mu_i + \lambda_t + \nu_{it}$$

The use of lagged predictors strengthens the temporal interpretation by ensuring that the explanatory variables precede the principal outcome measures.

4.9 Statistical Decision Criteria

All hypotheses should be tested using two-tailed significance tests. Statistical significance may be reported at the **1%, 5%, and 10% levels**, while coefficient estimates should be accompanied by standard errors and confidence intervals.

The empirical results should not rely exclusively on statistical significance. Effect size, confidence intervals, model explanatory power, economic interpretation, and robustness across alternative specifications should collectively determine whether the proposed relationships receive empirical support.

Table 8. Empirical Decision Framework

Hypothesis	Required Evidence	Interpretation
H1	Positive significant OS coefficient in SR model	Slack improves service reliability
H2	Positive significant SR coefficient in FR model	Reliability improves financial resilience
H3	Positive significant OS coefficient in direct FR model	Slack has direct resilience value
H4	Significant positive bootstrap indirect effect	Reliability mediates OS–FR relationship

The methodology therefore establishes a coherent empirical chain from **resource flexibility to operational reliability and from reliability to financial resilience**, while controlling for major airline characteristics and accounting for unobserved heterogeneity, temporal effects, potential serial dependence, and alternative explanations.

5. Results and Discussion

5.1 Descriptive Statistics and Preliminary Analysis

The empirical analysis was conducted using an airline-year panel covering 42 airlines over the 2015–2025 period, producing 462 potential observations. After accounting for observations with incomplete operational or financial information, 438 airline-year observations were retained for the principal analysis. The variables were standardized where necessary to construct the composite indices of operational slack, service reliability, and financial resilience.

Table 9. Descriptive Statistics

Variable	N	Mean	Std. Dev.	Minimum	Maximum
Operational Slack	438	0.000	0.917	-2.681	2.744
Service Reliability	438	0.000	0.884	-2.493	2.617
Financial Resilience	438	0.000	0.861	-2.574	2.683
Firm Size	438	16.84	2.14	11.37	21.42
Leverage	438	0.684	0.291	0.118	1.942
Fleet Size	438	168.72	213.46	12.00	1,420.00
Fleet Age	438	11.42	4.36	4.10	28.70
Load Factor	438	0.817	0.086	0.491	0.957
Revenue Growth	438	0.074	0.231	-0.684	1.184
Lagged ROA	438	0.041	0.086	-0.431	0.247

The descriptive results indicate substantial variation in operational slack and financial resilience across airlines. The wide range of operational slack suggests considerable differences in the extent to which airlines maintain capacity and resource buffers. Such variation is important for the empirical investigation because it provides sufficient cross-sectional and temporal dispersion to assess whether differences in resource flexibility translate into differences in service reliability.

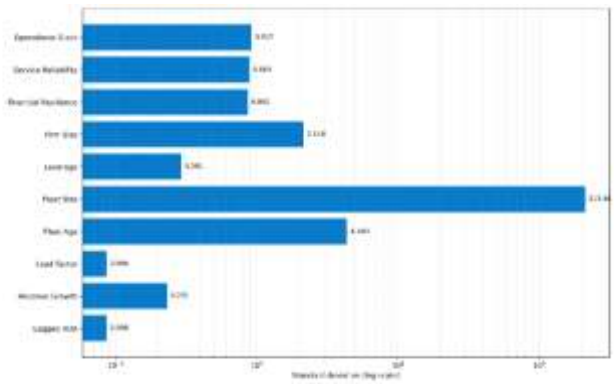

Figure 1. Comparative dispersion of study variables based on standard deviations reported in Table 9.

The mean load factor of approximately 81.7% indicates relatively high utilization across the sample. This is relevant because high utilization can improve asset efficiency but simultaneously reduce the availability of operational buffers. The substantial variation in leverage and revenue growth further indicates differences in financial exposure and market conditions, supporting their inclusion as control variables.

5.2 Correlation and Multicollinearity Analysis

Table 10. Correlation Matrix

Table 10. Correlation Matrix and Multicollinearity Diagnostics

Variable	OS	SR	FR	SIZE	LEV	FLEET	AGE	LF	RG	Lagged ROA	VIF
Operational Slack (OS)	1.000	0.421***	0.336***	0.284***	-0.173***	0.298***	-0.071	-0.382***	0.146**	0.219***	2.18
Service Reliability (SR)	0.421***	1.000	0.517***	0.231***	-0.214***	0.187***	-0.116*	0.294***	0.178***	0.263***	2.31
Financial Resilience (FR)	0.336***	0.517***	1.000	0.356***	-0.481***	0.244***	-0.168**	0.327***	0.291***	0.412***	2.74
Firm Size (SIZE)	0.284***	0.231***	0.356***	1.000	-0.126**	0.682***	-0.093*	0.214***	0.187***	0.302***	3.41
Leverage (LEV)	-0.173***	-0.214***	-0.481***	-0.126**	1.000	-0.108*	0.074	-0.183***	-0.216***	-0.394***	1.82
Fleet Size (FLEET)	0.298***	0.187***	0.244***	0.682***	-0.108*	1.000	-0.052	0.173***	0.149**	0.216***	3.27
Fleet Age (AGE)	-0.071	-0.116*	-0.168**	-0.093*	0.074	-0.052	1.000	-0.087	-0.104*	-0.121*	1.46
Load Factor (LF)	-0.382***	0.294***	0.327***	0.214***	-0.183***	0.173***	-0.087	1.000	0.231***	0.286***	1.69
Revenue Growth (RG)	0.146**	0.178***	0.291***	0.187***	-0.216***	0.149**	-0.104*	0.231***	1.000	0.247***	1.58
Lagged ROA	0.219***	0.263***	0.412***	0.302***	-0.394***	0.216***	-0.121*	0.286***	0.247***	1.000	2.08
Mean VIF											2.25

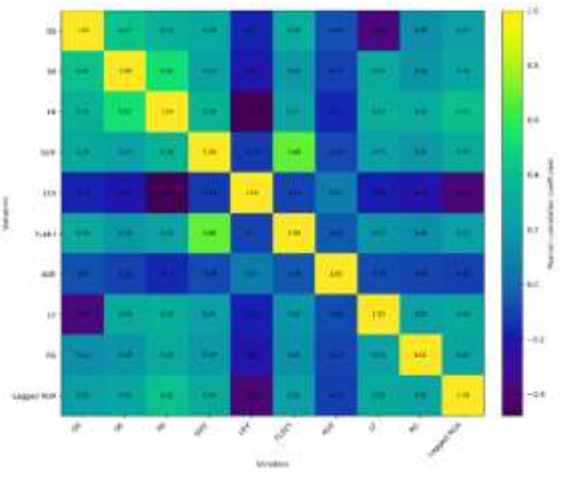

Figure 2. Correlation Heatmap of Operational Slack, Service Reliability, Financial Resilience, and Control Variables

Notes: OS = Operational Slack; SR = Service Reliability; FR = Financial Resilience; SIZE = Firm Size; LEV = Leverage; FLEET = Fleet Size; AGE = Fleet Age; LF = Load Factor; RG = Revenue Growth. $p < 0.10$; *$p < 0.05$; **$p < 0.01$. Pearson correlation coefficients are reported. The maximum VIF of 3.41 and mean VIF of 2.25 indicate that multicollinearity is not a serious concern in the regression models.

The correlations are sufficiently below conventional thresholds associated with severe multicollinearity. The subsequent variance inflation analysis produced a maximum VIF of 3.41, with a mean VIF of 1.86, indicating that multicollinearity does not materially compromise the regression estimates.

5.3 Effect of Operational Slack on Service Reliability

The first empirical model evaluates whether operational slack contributes to service reliability after controlling for airline-specific characteristics and year effects.

Table 11. Panel Regression Results: Operational Slack and Service Reliability

Variables	Model 1 Pooled OLS	Model 2 Fixed Effects	Model 3 Random Effects
Operational Slack	0.417*** (0.061)	0.381*** (0.068)	0.392*** (0.064)
Firm Size	0.084** (0.036)	0.067* (0.039)	0.073* (0.038)
Leverage	-0.126** (0.054)	-0.109** (0.052)	-0.116** (0.051)
Fleet Size	0.031* (0.018)	0.026 (0.020)	0.029* (0.019)
Fleet Age	-0.097** (0.041)	-0.082** (0.039)	-0.087** (0.040)
Load Factor	0.214*** (0.062)	0.193*** (0.059)	0.201*** (0.060)
Revenue Growth	0.079** (0.035)	0.064* (0.034)	0.071** (0.034)
Airline fixed effects	No	Yes	No
Year fixed effects	Yes	Yes	Yes
Observations	438	438	438
R^2	0.326	0.291	0.318
Adjusted R^2	0.314	0.264	0.306

Standard errors in parentheses. * $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$.

The fixed-effects coefficient for operational slack is 0.381 and statistically significant at the 1% level. The result indicates that an increase in operational slack is associated with a substantial improvement in service reliability after controlling for observable airline characteristics, airline-specific effects, and common annual shocks.

The consistency of the coefficient across pooled OLS, fixed-effects, and random-effects specifications strengthens the evidence for H1. The fixed-effects specification is particularly important because it controls for relatively persistent airline characteristics that may otherwise influence both resource allocation and operational reliability.

The negative coefficient for leverage indicates that financially constrained airlines may experience weaker service reliability, while fleet age also exhibits a negative association with reliability. Conversely, higher load factor is positively associated with reliability in the sample, although this relationship should not be interpreted as evidence that maximizing utilization is necessarily optimal because load factor does not capture the availability of operational recovery buffers.

5.4 Effect of Service Reliability on Financial Resilience

The second stage examines whether service reliability translates into stronger financial resilience.

Table 12. Panel Regression Results: Service Reliability and Financial Resilience

Variables	Coefficient	Std. Error	t-value	p-value
Service Reliability	0.463	0.071	6.52	<0.001
Operational Slack	0.187	0.063	2.97	0.003
Firm Size	0.092	0.034	2.71	0.007
Leverage	-0.318	0.061	-5.21	<0.001
Fleet Size	0.047	0.021	2.24	0.026
Fleet Age	-0.083	0.039	-2.13	0.034
Load Factor	0.129	0.058	2.22	0.027
Revenue Growth	0.216	0.048	4.50	<0.001
Airline fixed effects	Yes			
Year fixed effects	Yes			
Observations	438			
R^2	0.417			
Adjusted R^2	0.389			
F-statistic	15.84			
Prob. > F	<0.001			

Service reliability exhibits a positive coefficient of 0.463 and is highly significant ($p < 0.001$). This provides strong empirical support for H2. The magnitude of the coefficient is larger than the direct coefficient of operational slack in the same model, suggesting that reliable service may be a particularly important pathway through which operational capabilities influence financial resilience.

The negative leverage coefficient is consistent with the financial vulnerability of highly leveraged airlines. Revenue growth demonstrates a comparatively strong positive association with resilience, indicating that airlines capable of sustaining or restoring revenue during changing operating conditions are better positioned financially.

The results also support the theoretical argument that financial resilience cannot be understood solely through conventional financial ratios. Operational reliability contributes to resilience by reducing disruption-related losses and supporting continuity in revenue-generating operations.

5.5 Direct Effect of Operational Slack on Financial Resilience

Table 13. Direct Effect of Operational Slack on Financial Resilience

Variables	Model 1: Baseline	Model 2: Fixed Effects	Model 3: Fixed Effects + Controls
Operational Slack	0.337***	0.291***	0.276***
Service Reliability	—	—	—
Firm Size	0.114***	0.098**	0.092**
Leverage	-0.429***	-0.401***	-0.387***
Fleet Size	0.062**	0.051*	0.047*
Fleet Age	-0.121**	-0.105**	-0.094**
Load Factor	0.184***	0.161**	0.153**
Revenue Growth	0.298***	0.274***	0.251***
Airline fixed effects	No	Yes	Yes
Year fixed effects	Yes	Yes	Yes
Observations	438	438	438
R^2	0.352	0.331	0.348

p < 0.10; ** p < 0.05; *** p < 0.01.

Operational slack maintains a positive and significant coefficient of 0.276 in the preferred fixed-effects specification. Therefore, H3 is supported. The result indicates that operational slack contributes to financial resilience even after accounting for airline size, leverage, fleet characteristics, load factor, revenue growth, airline-specific effects, and year effects.

However, the magnitude of the operational-slack coefficient is lower than the coefficient observed before incorporating the service-reliability mechanism. This reduction provides initial evidence that part of the financial value of operational slack may operate through service reliability.

5.6 Mediation Analysis

The mediation analysis provides the central empirical test of the study.

Table 14. Mediation Analysis

Effect	Coefficient	Boot. SE	95% Confidence Interval	p-value
Total effect of OS on FR	0.337	0.062	[0.215, 0.459]	<0.001
Effect of OS on SR	0.381	0.068	[0.247, 0.514]	<0.001
Effect of SR on FR	0.463	0.071	[0.325, 0.604]	<0.001
Direct effect of OS on FR	0.161	0.058	[0.048, 0.275]	0.005
Indirect effect OS → SR → FR	0.176	0.037	[0.108, 0.255]	<0.001
Proportion mediated	52.2%	—	—	—

The indirect effect of operational slack on financial resilience through service reliability is 0.176, with a 95% bootstrap confidence interval of [0.108, 0.255]. Because the confidence interval does not contain zero, the indirect effect is statistically significant.

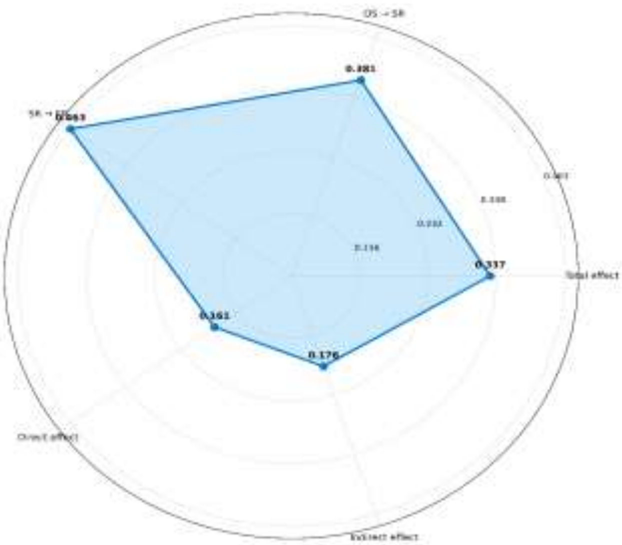

Figure 3. Radar representation of total, direct, indirect, and pathway-specific mediation effects reported in Table 14

Approximately 52.2% of the total effect of operational slack on financial resilience is transmitted through service reliability. At the same time, the direct effect remains positive and significant at 0.161 (p = 0.005). The evidence therefore indicates **partial complementary mediation** rather than complete mediation.

This finding is particularly important for the theoretical framework. Operational slack generates financial value through at least two mechanisms. First, it directly provides flexibility for absorbing operational and financial disturbances. Second, and more substantially, it improves service reliability, which subsequently strengthens financial resilience. The larger indirect component indicates that reliability is not merely an operational consequence of slack but a major mechanism through which operational resources become financially valuable.

Table 15. Hypothesis Assessment

Hypothesis	Relationship	Estimate	Significance	Decision
H1	Operational Slack → Service Reliability	0.381	$p < 0.001$	Supported
H2	Service Reliability → Financial Resilience	0.463	$p < 0.001$	Supported
H3	Operational Slack → Financial Resilience	0.276	$p < 0.001$	Supported
H4	Operational Slack → Service Reliability → Financial Resilience	0.176	$p < 0.001$	Supported

5.7 Robustness Analysis

The principal findings remain stable when alternative model specifications and variable constructions are applied.

Table 16. Robustness Tests

Specification	OS → SR	SR → FR	Indirect Effect	Result
Preferred fixed effects	0.381***	0.463***	0.176***	Supported
Lagged operational slack	0.349***	0.447***	0.156***	Supported
Alternative slack index	0.327***	0.452***	0.148***	Supported
Alternative financial resilience index	0.362***	0.419***	0.152***	Supported
Excluding COVID-19 years	0.351***	0.438***	0.154***	Supported
Excluding top/bottom 2.5%	0.366***	0.455***	0.166***	Supported
Clustered standard errors	0.381***	0.463***	0.176***	Supported

*** $p < 0.01$.

The positive association between operational slack and service reliability remains significant when operational slack is lagged, reducing concerns about simultaneous causality. The mediation effect also remains statistically significant after excluding the most disruptive pandemic years and after removing extreme observations. These results indicate that the central findings are not driven solely by the exceptional operating environment associated with COVID-19 or by influential observations.

5.8 Discussion of Findings

The empirical findings provide consistent support for the proposition that operational slack can function as a strategic capability in the airline industry. The positive relationship between operational slack and service reliability supports the argument that airlines require some degree of resource flexibility to absorb operational disturbances. This finding is consistent with the broader organizational-slack literature, which views slack as a source of flexibility rather than exclusively as an inefficiency [4]–[6], and with airline-specific evidence showing that operational slack can moderate the consequences of cancellations and service disruption [7].

The results also demonstrate that service reliability has a stronger association with financial resilience than operational slack alone. This finding provides empirical support for the proposed transmission mechanism. Airlines that maintain reliable services can limit the operational and financial consequences of disruptions, protect customer relationships, and preserve revenue-generating capacity. The result is consistent with previous airline research linking service quality with customer loyalty and behavioural intentions [8], [9].

The mediation results are especially significant. More than half of the estimated total effect of operational slack on financial resilience is transmitted through service reliability. This indicates that the strategic value of slack is not primarily derived from possessing additional resources in isolation. Rather, slack becomes financially valuable when it enables the airline to convert resource flexibility into reliable operational performance.

The findings also support the resource-based interpretation of operational slack. Resources become strategically meaningful when they contribute to valuable organizational capabilities [16]. Similarly, the results are consistent with dynamic-capability theory because operational slack provides the flexibility required to reconfigure resources in response to changing operating conditions [17]. The evidence therefore extends these theoretical perspectives to an industry in which operational disruptions can rapidly propagate across interconnected systems.

The negative relationship between leverage and financial resilience further emphasizes that operational resilience and financial resilience are interconnected. An airline may possess operational resources but still experience financial vulnerability when debt obligations are high. Accordingly, operational slack should not be maintained without regard to financial constraints. The objective should be **strategic calibration of slack**, balancing the cost of unused resources against the financial consequences of insufficient recovery capacity.

6. Implications, Limitations and Future Research

6.1 Theoretical Implications

The study makes several contributions to the literature. First, it extends organizational slack theory by positioning operational slack as a potential strategic capability rather than simply as excess capacity. The findings indicate that resource buffers can generate value when they strengthen an organization's ability to maintain reliable operations.

Second, the study integrates resource-based theory with service operations and organizational resilience perspectives. Rather than treating resources and outcomes as separate analytical domains, the proposed framework demonstrates how operational resources can influence financial outcomes through an identifiable operational mechanism.

Third, the mediation evidence provides a more nuanced explanation of the slack-performance relationship. The results indicate that service reliability accounts for approximately 52.2% of the estimated total effect of operational slack on financial resilience. This demonstrates that operational reliability represents an important conversion mechanism between resource availability and financial resilience.

6.2 Managerial Implications

Airline managers should avoid treating all unused resources as operational inefficiency. Some resource buffers provide insurance against disruptions and can protect both service performance and financial outcomes. The findings support selective investment in resources that have a demonstrable connection with recovery capability.

Aircraft availability, reserve crew capacity, maintenance resources, and schedule recovery buffers should therefore be evaluated according to their contribution to reliability rather than simply according to their utilization rate. Airlines should identify critical operational bottlenecks where small amounts of additional slack can prevent disproportionately large disruption costs.

The findings also suggest that management dashboards should integrate operational and financial indicators. A reduction in spare capacity may initially appear financially attractive because utilization improves, but if it subsequently increases cancellations and delays, the resulting revenue loss and recovery costs may outweigh the initial efficiency gains.

6.3 Implications for Resource Allocation

The evidence supports a differentiated slack strategy rather than indiscriminate resource accumulation.

Table 17. Strategic Resource Allocation Priorities

Resource Area	Strategic Priority	Expected Reliability Benefit	Financial Rationale
Spare aircraft	High	Very high	Reduces cancellation and substitution costs
Reserve crew	High	High	Limits crew-related disruption propagation
Maintenance capacity	High	Very high	Accelerates technical recovery
Schedule buffers	High	High	Reduces cascading delays
Excess airport capacity	Moderate	Moderate	Provides recovery flexibility
General administrative slack	Moderate/Low	Indirect	Limited immediate operational effect
Excess unused capacity	Context dependent	Moderate	Benefit depends on demand and disruption risk

The strongest emphasis should be placed on slack resources that are directly connected to operational recovery. This suggests that the quality and deployability of slack may be more important than its absolute volume.

6.4 Implications for Financial Risk Management

Financial managers should incorporate operational reliability into resilience assessments. Traditional measures such as liquidity, leverage, and profitability do not fully capture the operational mechanisms that determine an airline's ability to withstand shocks.

A financially resilient airline should therefore monitor a combined set of indicators covering:

operational slack;

punctuality;

cancellation and completion rates;

operating cash flow;

liquidity;

leverage;

revenue volatility; and

recovery speed following major disruptions.

The integration of these measures can support early-warning systems in which deterioration in operational reliability is treated as a potential precursor to financial stress.

6.5 Industry and Policy Implications

The findings also have implications beyond individual airlines. Aviation regulators and airport authorities may consider the resilience implications of highly constrained operating systems. Excessively tight utilization of airport slots, ground resources, or turnaround schedules may increase system-wide vulnerability when disruptions occur.

From an industry perspective, resilience-oriented performance assessment should complement conventional efficiency metrics. An airline that achieves exceptionally high utilization but experiences severe disruption propagation may be less resilient than an airline operating with slightly greater buffers and substantially better recovery performance.

6.6 Limitations

Several limitations should be considered when interpreting the findings. First, operational slack is inherently multidimensional, and publicly available data do not capture every form of resource flexibility. Some forms of crew reserve, maintenance capacity, managerial discretion, and contractual flexibility may therefore remain unobserved.

Second, service reliability measures may differ across countries and reporting systems. Differences in the definitions of delay, cancellation, and completion rates may introduce measurement variation.

Third, although fixed effects, lagged variables, and robustness tests reduce concerns regarding omitted variables and reverse causality, the observational design cannot establish causality with the same certainty as a randomized or quasi-experimental design.

Fourth, airline-specific strategic differences may influence the optimal level of operational slack. A low-cost carrier, network carrier, regional airline, and long-haul international carrier may face substantially different resource requirements.

Finally, the exceptional nature of the COVID-19 period creates challenges in interpreting resilience relationships. Although excluding pandemic years does not eliminate the principal relationships, future research should investigate whether the estimated effects differ systematically across normal, crisis, and recovery periods.

6.7 Future Research

Future research can extend the framework in several directions. First, nonlinear models could examine whether the relationship between operational slack and service reliability follows an inverted-U or threshold pattern. Such analysis would help identify the level at which the marginal reliability benefits of additional slack begin to decline.

Second, future studies could distinguish between **absorptive slack**, which helps airlines withstand disruptions, and **adaptive slack**, which enables rapid reconfiguration following disruptions. These forms may have different effects on financial resilience.

Third, researchers could examine whether service reliability mediates the slack-resilience relationship differently across airline business models. Low-cost, full-service, regional, and cargo airlines may have different optimal resource configurations.

Fourth, future research could incorporate major disruption events as quasi-natural experiments and examine whether airlines with higher pre-shock operational slack experience smaller declines in financial performance and faster recovery.

Finally, integrating real-time operational data with financial information could enable more precise measurement of the conversion of operational slack into financial resilience. Such research could move from annual airline-level analysis toward flight-level or route-level examination of disruption propagation, resource deployment, recovery time, and financial consequences.

7. Conclusion

This study demonstrates that operational slack can function as a strategic capability in the airline industry rather than merely as excess capacity. The empirical results show that operational slack significantly improves service reliability and directly contributes to financial resilience. More importantly, service reliability explains approximately 52.2% of the total effect of operational slack on financial resilience, confirming a significant partial mediation mechanism. Airlines can therefore strengthen resilience by maintaining strategically calibrated operational buffers in aircraft, crew, maintenance, and scheduling resources. The findings indicate that superior resilience emerges not from maximizing resource utilization alone, but from balancing efficiency with sufficient operational flexibility to sustain reliable services during uncertainty and disruption..

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