Corporate in Financial Distress and Determinant Analysis of Successful Financial Turnaround

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ARTICLE INFO	ABSTRACT
	Corporate financial distresses and turnarounds has always been relevant on business literatures because we have seen more than enough corporate bankruptcies over the past decades. Financial distress is a condition of declining financial performance, earlier phase prior to companies experiencing bankruptcy or liquidation. The response to this condition ranges from a denial of the problem, to reducing the scale and scope of operations, all the way to the top change of management and dissolution of corporation. With the complexities of issues and implications associated with financial distresses and the recoveries attempted by corporations, the ability to formulate appropriate strategic responses is becoming very much important for stakeholders. This study is focusing on determinant analysis of multiple organizational factors, which are expense retrenchment, profitability, free assets, size, assets retrenchment and leverage, that may influence the successful financial turnaround for financially distressed firms and use logistic regression in hypothesis testing of the study. Samples are taken from manufacturing companies listed in Indonesia Stock Exchange (IDX) in research period 2015 to 2019. Financial data from 2015 to 2019 are used to determine financial distresses utilizing Altman's Z-Score model, and data from 2016 to 2018 are processed as the independent variables. Results of the study found that all of five independent variables have positive influence toward the likelihood of successful financial turnaround, however only three variables including profitability, free assets and leverage giving significant influence, meanwhile two other independent variables including expense and assets retrenchment do not have significant influence the likelihood of successful financial turnaround.

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INTRODUCTION

Dynamic economic conditions combined with the rapid pace of change, provide tough challenges for every company that lives in it. Often these rapid changes cannot be anticipated well by companies, which ultimately drags them into financial distress, but this does not mean that the company's life journey is over, more precisely, the company is experiencing a condition of declining financial performance. which can increase the risk of insolvency of the company. The term insolvency is different from the term bankruptcy, although the two are often confused. Insolvency is generally understood as a state when a company have the inability to pay debts when they are due. Financial distress as defined by Kristanti (2019) is a situation when a company is unable to fulfill its obligations. This happens as an early sign before the worst thing that can happen, which is bankruptcy.

While we're on the subject of bankruptcy, Law 37 of 2004 (Kepailitan dan Penundaan Kewajiban Pembayaran Utang - PKPU) governs the laws of Indonesia pertaining to this matter. Any debtor with two or more creditors who is unable to pay in full one due and receivable debt may be declared bankrupt by a court decision, either upon the debtor's request or upon the request of any

one or more of those creditors, as stated in article 2, paragraph 1. Bankruptcy is clearly not solely a result of the company's financial status; it is a decision made by an authorised court.

The delisting of a public company's shares from the Indonesian Stock Exchange (IDX) is another potential outcome of financial difficulty. The IDX authorities must take this measure to safeguard investors' and the company's interests from possible losses. Regulation Number I-I Governing Delisting and Relisting of Shares on the Exchange, Provisions III.3.I.I., is the reference utilised by the IDX for delisting shares of listed businesses. The IDX is required by this law to delist a company's shares if the company faces at least one occurrence or condition that seriously threatens its ability to continue operating as a public corporation.

In addition to the regulations mentioned above, in order to increase protection for investors, the IDX considers it necessary to determine certain conditions for Listed Companies and Equity Securities from Listed Companies to be included in the criteria for Equity Securities under Special Monitoring, through Regulation No. II-S concerning Equity Securities Trading Under Special Monitoring. In its letter number Kep-00030/BEI/05-2022 dated 27 May 2022, IDX Directors sets out several criteria for equity securities to be included in special monitoring, which are then classified into 17 special notations. Of all these special notations, there are several notations that related to the financial distress criteria, namely B, M, E, A, D, L and S. If a company falls within these criteria, the company's shares are given a special note, which can be a consideration for IDX investors before making investment decisions on company shares.

In responding to the financial distress conditions experienced by the company, management must carry out an analysis and then make decisions quickly but precisely. Quick decisions must be taken because the longer the financial distress condition lasts, the more company resources will be wasted. Likewise, if the decisions taken are not correct, the result is that management's response will be ineffective and financial distress cannot be reversed successfully.

Bankruptcy is one of several options that companies experiencing financial distress can take. There are three options available to this type of business, say Pastena and Ruland (1986): 1) The business can keep running in the hopes of improving its financial situation; 2) A merger or acquisition might be an option; 3) Filing for bankruptcy and selling off assets would be the last resort.

For companies that choose to continue operations, the company must struggle to turn around its financial condition and try to achieve economic stability. When a firm's performance can be turned around from a downturn that threatens its survival to finally becoming a corporation that can attain sustained profitability, it is considered a successful turnaround. Appropriate management actions are very necessary in an effort to stop decline and stabilize company performance, according to Whitaker (1999). In deciding what actions need to be taken, it is necessary to know what factors need to be maintained and what needs to be taken to achieve a successful turnaround for a company experiencing financial distress.

The phenomenon of financial distress turning into a successful financial turnaround has also occurred in several large companies which are currently successful in becoming global companies such as Apple Inc., General Motors Company Inc., Fedex Corporation or the Renault SA - Nissan Motor Co Ltd alliance. The success of this financial turnaround was not achieved easily, because financial turnaround is a complex process. This complexity includes various combinations of external factors or the economic and business environment, as well as internal company factors such as the resources owned, and company strategies that are relevant and effective at various stages of performance decline.

Most financial turnaround strategies can be said to include two stages, namely a strategy to survive a decline in performance with the main aim of stabilizing the company's financial condition, and the next stage is a recovery strategy. Several studies have emerged regarding what factors in a financial turnaround strategy are the determinants of financial turnaround, for example whether retrenchment factors such as asset reduction, cost reduction or employee reduction and several other

resources influence financial performance recovery in financial distress conditions. These factors focus on the internal company, where external factors, such as economic and business dynamics are seen as not being within the control of company management.

Resource factors that are thought to affect a company's financial turnaround success have been the subject of several prior studies using research objects at the IDX. These factors include potential earnings, free assets, firm size, asset retrenchment, expense retrenchment, profitability, level of leverage, degree of financial distress (severity), and CEO turnover. Of the 23 previous studies conducted on the IDX which are used as references, the results of these studies are not the same in concluding that there is a partial influence of these research factors or variables on the success of financial turnaround, or it could be said that there is still a research gap in terms of variables. An overview can be seen in Table 1 as follows:

Table 1: Research Factors in Previous Studies

No.	Research Factors	Partial Influence	
		Influence	Not Influence
1	Severity	3	6
2	Free asset	8	7
3	Asset retrenchment	3	6
4	Expenses retrenchment	1	3
5	Level of leverage	2	1
6	Prospective earnings	0	1
7	Firm size	8	6
8	CEO turnover	0	9
9	Profitability	3	0

Source: processed data

From Table 1 we can see that the factors most frequently studied in previous studies are free assets, firm size, then severity, asset retrenchment, CEO turnover, then expenses retrenchment, level of leverage, profitability, and prospective earnings, with results or research conclusions not uniform, except for the CEO turnover factor, where all studies state that there is no partial influence, and the profitability factor, where all studies state that there is a partial influence. Differences in research periods, populations and research samples can cause differences in final research conclusions.

As financial distress may happen anytime to any corporation, research on financial distress and financial turnaround topics are always relevant and in demand. It is important for researcher to give contribution and to provide meaningful feedback based on empirical study of financial turnaround to business stakeholders, which in turn will also give suggestion on future research on the same topics. According to Chowdury (2002) the development of knowledge about corporate turnaround has grown rapidly in the last few decades, however, many agree that the literature on corporate turnaround is still limited in number, when compared with research in other fields, for example financial distress. Moreover, corporate turnaround research for developing countries was only widely seen in the East Asia area after the economic crisis in 1998, according to Abdullah and Husin (2010). This situation motivated the author to conduct study on the topic of financial turnaround with the research objects being companies listed on the Indonesian Stock Exchange.

This study was inspired by the previous studies of Smith and Graves (2005), Francis and Desai (2005), and Sudarsanam and Lai (2001), also by previous Indonesian researchers who

conducted research in Indonesia, so there are similarities in several variables used, but this study offers novelty based on the financial turnaround theory used and on the research object which are manufacturing companies in Indonesia registered on the IDX, especially from the basic industry and chemistry sector, miscellaneous industry sector and consumer goods industry sector, and experiencing financial distress. This study also covering the research gap from previous studies, in addition to the difference in study period, which was from year of 2015-2019.

Nevertheless, this study may have some limitations, firstly on the population of samples taken which only cover manufacturing companies, although manufacturing companies already covers many business sectors. Secondly, the period of study is limited to 2015-2019 prior to pandemic of Covid-19 era, and thirdly, the study is not covering external factors. These limitations may give suggestion to other research in the future research within the same topics of financial turnaround.

Literature Review

According to Sudirsanam and Lai's (2001) research, the literature on turnaround strategies cites three main areas: operation, asset, and financial restructuring. Stabilizing business operations and reestablishing profitability with a focus on tight cost management and reduction of operational assets is the goal of operational restructuring, which is synonymous with efficiency strategy or operation strategy. Increasing efficiency and margins through the reduction of direct costs and the streamlining of overhead in accordance with volume is the goal of operational restructuring, which encompasses tactics for lowering operating expenses, increasing income, and decreasing operating assets (Slater, 1984). Companies in financial crisis often begin their turnaround strategies with operational restructuring (Hofer, 1980). The goal of efficiency measures is to maximize revenue (output) while minimizing costs (input). For a turnaround to be successful, Arogyaswamy and Yasai-Ardekani's (1997) research on the topic of cost reduction and efficiency improvement— which can boost profitability in the short term—is crucial. Another factor is investment in technology. The capacity of a business to turn a profit over a specific time frame is what Brigham and Houston (2001) mean when they talk about profitability. A company's profitability is a measure of its future profit potential, an indication of the efficacy and efficiency of its management, and a reflection of the success of its activities.

Reorganizing a company's assets, whether through investment or sale, is known as asset restructuring. According to Hofer (1980), asset divestiture and retrenchment are crucial for recovery in cases of extreme crisis and/or poor strategic health. For instance, in a scenario where the product or market is dropping, and the current capacity is far higher than the long-term revenue potential or assets. If a company's performance is going downhill, the management ought to do something about it, say Barker and Mone (1994). According to Hambrick and Schecter (1983), retrenchment is a method of increasing efficiency by cutting down on less productive firm resources. This strategy can significantly affect turnaround. However, corporations can also seek out acquisition possibilities that align with their core skills and have the potential for long-term profitability through asset restructuring. Hofer (1980) contended that a change in strategy direction is crucial for organizations that have previously pursued misguided strategies or are in the midst of declining or mature products or markets. Free assets are defined by Singh (1986) as the liquid, non-guaranteed resources of a corporation. On the other hand, according to White (1989), businesses that are in a financial bind but have enough free assets (i.e., more assets than debt or fixed assets than debt collateral) will have a better shot of avoiding bankruptcy. Free asset availability is a key differentiator between organizations that successfully execute a turnaround and those that fail, according to research by Casey et al. (1986), Campbell (1996), and Routledge and Gadenne (2000).

There are two main approaches to financial restructuring, as described by Sudarsanam and Lai: equity-based and debt-based. The former aims to reduce interest and debt payments by reorganizing a company's capital structure. Dividend cuts and other equity-related actions are

examples of equity-based strategies, whereas debt-based strategies involve reorganizing the company's debt. Reducing or eliminating dividends can boost liquidity, but it could lead to agency disputes with shareholders, so it's important to carefully weigh both options. George and Hwang (2010) and Routledge and Gadenne (2000) found that companies with debt had a better chance of a successful turnaround. However, Molina (2005) argues that companies in financial distress are often burdened by large amounts of debt because over leverage is the main cause of financial difficulties. Zingales (1998) argues that high leverage makes survival less likely by limiting investment, and Giroudet et al. (2012) observed that performance improved significantly after debt reduction.

Hypothesis Development

Expenses retrenchment is part of the operational strategy related to all company actions in terms of cost reduction, such as cost rationalization, including the cost of goods sold and selling, general and administrative (SG&A) costs. Expense retrenchment is aimed at increasing the company's efficiency and profit margin, which is an important aspect for turnaround success because it can increase profitability in the short term, according to Arogyaswamy and Yasai-Ardekani (1997). Therefore, the better the efficiency strategy is implemented, the more cost savings will have a positive impact on increasing the company's ability to carry out turnaround, according to Lohrke and Bedeian (1998). The formulation of the hypothesis based on this description is as follows:

H1 = Expense retrenchment have positive influences in successful financial turnaround

Profitability is a company's ability to create profits over a certain period, according to Brigham and Houston (2001). Profitability can be used as an indicator of the success of company operations, reflecting the effectiveness and efficiency of company management. According to research by Taffler (1983), Casey et al (1986) and Routledge and Gadenne (2000), profitability is statistically significant and can be used to distinguish companies in financial distress and with the potential to survive, from companies experiencing liquidation. The greater the level of profitability relative to assets, the greater the potential for success in the company's financial turnaround. The formulation of the hypothesis based on this description is as follows:

H2 = Profitability have positive influences in successful financial turnaround

The logic of the asset retrenchment strategy is that by reducing assets that are performing poorly, the company can end its downward financial condition and it is hoped that this will improve the company's performance (DeWitt, 1993; Hoskisson and Johnson, 1992). Asset retrenchment is a consequence of a sharp decline in performance where the company's financial performance becomes very bad, according to Barker and Mone (1994). Based on previous research, asset retrenchment has an influence on the possibility of a company's financial turnaround being successful. The results of a study conducted by Pearce and Robbins (1992) found that companies that experienced a decline in financial performance and did not carry out asset retrenchment were less likely to turnaround and would continue to experience a decline in performance. The formulation of the hypothesis based on this description is as follows:

H3 = Asset retrenchment have positive influences in successful financial turnaround

Casey et al (1986), and also White (1989) report that the amount of free assets is an important variable in distinguishing companies that are successful in implementing a turnaround or those that are not. Companies experiencing distress with adequate free assets (such as assets that exceed debt or fixed assets that exceed debt collateral) will have a higher probability of success in avoiding bankruptcy because these assets enable the company to obtain the injection of funds needed to achieve a successful turnaround and provide support. which guarantees the lender that there are sufficient assets to repay the loan if necessary. In this case, free assets can be used as a proxy for measuring the company's ability to guarantee loans.

Measuring free asset resources is by comparing the number of assets that exceed the total amount of debt to total assets (Francis and Desai, 2005). The company's free resources will help the

company reduce the effects of a decline in financial performance and provide resources to take effective action, so that companies with more free resources have a better chance of surviving during periods of financial distress, according to Barker and Mone (1998). The formulation of the hypothesis based on this description is as follows:

H4 = Free assets have positive influences in successful financial turnaround

The leverage ratio provides an overview of the sources of operating funds used by the company, besides that it also shows the risks faced by the company. The greater the risk experienced by the company, the greater the uncertainty in making profits in the future, according to Paramasivan (2009). This increase in risk is also related to how the company can survive the financial distress it is experiencing, because the higher the company's leverage value, the lower the possibility of the company successfully carrying out a financial turnaround. Giriati's (2021) research on the leverage factor in turnaround success shows that the debt to equity ratio has no effect on turnaround success, and advises companies to be careful in using debt in turnaround strategies because there is a risk of debt default which will have a negative impact on turnaround success. The formulation of the hypothesis based on this description is as follows:

H5 = Leverage have positive influences in successful financial turnaround

RESEARCH METHODS
Population and Sampling

The population in this study are manufacturing companies, especially from the basic and chemical industry sectors, miscellaneous industry and consumer goods industry sectors, which are listed on the Indonesia Stock Exchange (IDX), which reports its financials have been published in 2015-2019. The population is 125 companies. The companies that will be observed are companies that are experiencing financial distress. To measure the company's financial condition, Altman discriminant analysis calculations are used to produce a calculated Z-score value.

The sample determination was carried out purposively, that is, the sample companies were selected based on certain criteria (Candrawati, 2008). The criteria in question are:

1. Manufacturing companies in a consistent population are listed on the IDX continuously from 2015-2019.
2. Manufacturing companies in the population resulting from criterion 1, which publish financial reports continuously from 2015-2019.
3. Next, from the results of screening criteria 2, a sample of companies that experienced financial distress during 2015-2019 was selected, using the Altman Z-score formula whose data was taken from the company's financial reports. The samples selected were 2 groups, namely:
   a. Companies that in the 2015-2019 period always experienced financial distress (Smith and Graves 2005)
   b. Companies that in the 2015-2019 period experienced a Z-score in the financial distress category for at least 2 consecutive years and followed by a Z-score in the non-financial distress category for at least 2 consecutive years (Smith and Graves 2005)

Variables and Model

The success of financial turnaround in manufacturing enterprises facing financial hardship is the dependent variable in this study, and it is measured using the Altman Z-score discriminant analysis in the following ways:

$$Z\text{-score} = 1{,}2\ WC/TA + 1{,}4\ RE/TA + 3{,}3\ EBIT/TA + 0{,}6\ MVE/BVD + 0{,}99\ S/TA$$

WC/TA = Working Capital / Total Asset
RE/TA = Retained Earnings / Total Asset
EBIT/TA = Earnings Before Interest and Tax / Total Asset

MVE/BVD   = Market Value of Equity / Book Value of Debt
S/TA   = Sales / Total Asset

From the calculated Altman Z-score value, the middle cut-off in the gray area, which is 1.81 – 2.99, then taken so that the Z-score value obtained is 2.40. Companies that have a Z-score value of less than or equal to 2.40 are categorized as companies in financial distress (Candrawati, 2008).

The data used in calculating the Altman Z-score formula was taken from the company's financial reports for the 2015-2019 period. Based on the sample that has been selected, 2 dichotomous categories are obtained for the dependent variable, namely:

a. Category 0, for samples that during the 2015-2019 period always experienced financial distress, or the company did not succeed in turnaround.

b. Category 1, for samples that during the 2015-2019 period experienced financial distress for at least 2 consecutive years and were followed by recovery conditions for at least 2 consecutive years, or the company succeeded in a turnaround.

In Table 2 below, the operational definition of the research independent variable is presented as follows:

Table 2: Operational Definition of Independent Variables

No	Independent Variables	Description	Measurements
1	Expenses Retrenchment	Total Expenses Current Year - Total Expenses Previous Year, divided by Total Expenses Previous Year (Animah, 2017)	$(TE_t – TE_{t-1}) / TE_{t-1}$
2	Profitability	Ratio of Net Income and Average Total Asset (Wulandari & Gunawan, 2016)	ROA = NI / Averg TA
3	Asset Retrenchments	Total Asset Current Year - Total Asset Previous Year, divided by Total Asset Current Year (Wulandari & Gunawan, 2016)	$(TA_t – TA_{t-1}) / TA_{t-1}$
4	Free Asset	One minus the ratio of Total Liability divided by Total Asset (Wulandari & Gunawan, 2016)	1 – (TL/TA)
5	Leverage	The ratio of Debt and Equity (Giriati, 2021)	Debt / Equity Ratio (%)

The data analyzed as an independent variable is the 2016-2018 variable data, part of the 2015-2019 period, where the 2016-2018 period is estimated as the period when the company started taking response actions, it is expected that more changes in the company's condition can be seen after company took action against financial distress conditions in 2015. Then the companies that are predicted to be able to achieve financial turnaround, in 2018-2019, the last 2 years of the 2015-2019 period, is the period of successful turnaround, which is included in the category requirement of at least 2 years of being turned around to non-financial distress condition.

Descriptive statistics and inductive statistics (hypothesis testing) were the two statistical methods used to examine the data gathered and processed in this study. Quantitative data can be better understood and described through the use of descriptive statistics. To determine if independent variables have an effect on turnaround success, the logistic regression analysis method is employed for hypothesis testing.The logistic regression model proposed is:

$$Ln\frac{p}{1-p} = b_0 + b_1 \, EXP + b_2 \, PROF + b_3 \, FREAS + b_4 \, ASRET + b_5 \, LEV$$

p   = probability of company with successful turnaround
1-p   = probability of company with unsuccessful turnaround
b0   = constant
b1-b6   = independent variable coefficient of successful turnaround (unsuccessful=0, successful=1)
EXP   = expenses retrenchment
PROF   = profitability
FREAS   = free asset
ASRET   = asset retrenchment
LEV   = leverage

RESULTS AND DISCUSSION

Based on the Z-score value during 2015-2019, companies that experienced financial distress for at least 2 consecutive years and followed by non-financial distress performance for at least 2 years, obtained 8 companies in the turnaround category, and 34 companies in the non-turnaround category, which are companies whose performance during 2015-2019 always experienced financial distress. The results show that the majority of the sample (81%) of manufacturing companies experienced declining financial conditions or experienced financial distress, as can be seen in Table 3 below:

Table 3: Sample Quantity

No	Sample	Quantity	%
1	Non-Turnaround Companies	34	81%
2	Turnaround Companies	8	19%
	Total	42	100%

Source: processed data

Descriptive Statistical Analysis

Companies in the turnaround group (T) and non-turnaround group (NT) are described, shown, and summarised using descriptive statistics for each independent variable in the research model. The data that was analysed includes variable data from 2016 to 2018. The results, which include minimum, maximum, mean, and standard deviation values, are displayed in Table 4 below. The analysis was conducted using the SPSS programme:

Table 4: Descriptive Statistical

No	Variabel	Turnaround (T)				Non-Turnaround (NT)			
		Min	Max	Mean	St Dev	Min	Max	Mean	St Dev
1	EXP	(0.54)	0.84	0.09	0.27	(0.92)	0.96	0.03	0.22
2	PROF	(0.16)	0.51	0.07	0.11	(0.22)	0.18	0.00	0.06
3	ASRET	(0.44)	0.47	0.06	0.17	(0.85)	0.42	0.02	0.14
4	FREAS	0.11	0.91	0.58	0.24	(2.59)	0.74	0.25	0.51
5	LEV	0.10	8.26	1.26	1.70	(3.04)	11.10	1.82	2.21

Source: processed data

Table 4 shows the EXP variable which is measured by comparing the current year's total expense compared to previous year's total expense proportionally, to see if there is a decrease in the total expense value. The greater the decrease in expense value, the better, because it means the company is more efficient. For companies in the turnaround group (T), the minimum value is (0.54) and the maximum value is 0.84 and the mean value is 0.09 with a standard deviation of 0.27. Meanwhile, the EXP variable for non-turnaround (NT) group companies has a minimum value of (0.92) and a maximum value of 0.96 and a mean value of 0.03 with a standard deviation of 0.22. From these numbers, it can be seen that the mean values for both groups, both NT and T, are positive, so it is concluded that in general there has been no expense retrenchment, since the total expenses for the current year are still greater than last year, even though individually expense retrenchments occurred in several companies.

As a gauge of a company's profitability, the PROF variable calculates the Return on Assets (ROA) ratio, which is the ratio of net income to average total assets. Having a higher ROA number is desirable. Values for group T range from 0.16 to 0.51, with 0.07 as the mean and 0.11 as the standard deviation. In the meantime, the PROF variable for the NT group ranges from 0.22 to 0.18, with 0.00 as the mean and 0.06 as the standard deviation. Overall, the data suggests that while both groups' results are positive, the T group outperforms the NT group in terms of profitability.

To determine if there has been a decrease in the total asset value, the ASRET variable is calculated by proportionally comparing the current year's total assets to last year's total assets. The better for the business if it can maximise the use of its productive assets. The range of values for T group companies is from 0.44 to 0.47, with 0.06 as the mean and 0.17 as the standard deviation. In the meantime, NT group companies' ASRET variable ranges from 0.85 to 0.42, with 0.02 as the mean and 0.14 as the standard deviation. From the numbers where the mean is positive, it can be interpreted that in general the two groups, both T and NT groups, do not see any decline in assets or asset retrenchment, although individually several companies carrying out asset retrenchment.

The FREAS variable uses a measurement of the portion of total liabilities to total assets with a limit of 1 or 100%, to indicate resources that are still free, namely the amount of assets that exceeds the total liability. For T group companies, the minimum value is 0.11, the maximum is 0.91 and the mean value is 0.58 with a standard deviation of 0.24. It can be interpreted that group T companies have controlled total liability where the average is 58% of total assets. Meanwhile, NT group companies have a minimum value of (2.59), a maximum value of 0.74, and a mean value of 0.25 with a standard deviation of 0.51. In the NT group there are several companies that have a relatively large total liability of more than 100% of total assets, causing a negative FREAS value, which also makes the mean value smaller, namely 23%, which means the amount of free assets in the T group is better than the NT group.

The LEV variable uses the debt to equity ratio (DER) measurement. For group T companies, the minimum value is 0.1, the maximum value is 8.26, and the mean value is 1.26 with a standard deviation of 1.70. The conclusion is drawn that the DER value for group T is in good condition where there is no negative equity and the average debt value is 1.26 times the equity. Meanwhile, NT group have a minimum value of (3.04), a maximum value of 11.10, and a mean value of 1.82 with a standard deviation of 2.21. From these numbers it can be interpreted that NT group have relatively worse performance, where some companies have negative equity and debt values that are greater or an average of 1.82 times the equity value.

Hypothesis Testing

The Hosmer and Lemeshow test was used to estimate the goodness of fit in the first analysis, and the hypothesis to determine the regression model's fitness was:
H0: there is a match between observations and possible predicted results (model fits the data)

H1: there is no match between observations and possible predicted results (the model does not fit the data)

Hosmer and Lemeshow test result is shown in below Table 5:

Table 5: Hosmer and Lemeshow Test Result

Step	Chi Square	Df	Sig
1	6.391	8	0.603

Source: processed data

The Hosmer and Lemeshow test yielded a chi-square value of 6.391, which is lower than the chi-square table value of 15.507, and a probability significance value of 0.603, which is higher than the α value of 0.05. Since the predicted and actual classifications are statistically indistinguishable, we may accept H0 and proceed with our analysis using the regression model.

Table 6: Overall Model Fit Test Step 0 Result

Iteration		-2 Log Likelihood	Coefficient Constant
Step 0	1	123.586	-1.238
	2	122.705	-1.435
	3	122.702	-1.447
	4	122.702	-1.447

a. Constant is included in the model.
b. Initial -2 Log Likelihood: 122.702
c. Estimation terminated at iteration number 4 because parameter estimates changed by less than 0.001

Source: processed data

In the table above, the iteration history table at step 0 shown the value of -2LL is 122.702, and it is smaller than the chi square table value of 152.094 so that H0 can be accepted, which means that the model before entering the independent variable is a fit with the data

After entering the independent variables, iteration history table in step 1 shows that the -2LL value in step 1 of 76.449 is smaller than the -2LL value in step 0 of 122.702, which means that the overall model fit test results are feasible.

Table 7: Overall Model Fit Test Step 1 Result

Iteration		-2 Log Likelihood	Coefficient					
			Constant	EXP (X1)	PROF (X2)	ASRET (X3)	FREAS (X4)	LEV (X5)
Step 1	1	106.295	-1.413	0.571	5.689	0.167	0.533	-0.059
	2	92.275	-2.349	1.428	11.176	1.074	1.71	-0.093
	3	84.048	-4.072	1.827	17.176	1.399	3.963	0.124
	4	77.976	-8.086	1.536	18.386	2.675	9.934	0.805
	5	76.505	-8.762	1.447	20.202	3.354	11.038	0.789
	6	76.469	-8.852	1.479	20.699	3.457	11.159	0.781
	7	76.469	-8.851	1.481	20.715	3.46	11.158	0.78
	8	76.469	-8.851	1.481	20.715	3.46	11.158	0.78

a. Method: Enter
b. Constant is included in the model.
c. Initial -2 Log Likelihood: 122.702
d. Estimation terminated at iteration number 7 because parameter estimates changed by less than 0.001
Source: processed data

Next step, the 2 x 2 classification table is used to calculate the correct and incorrect estimated values. Table 8 below shows that in the predicted column of turnaround companies (T) there are 24 companies, while in the row the actual observation results are 12 companies experiencing turnaround, in the other side, for non-turnaround companies (NT) there are 102 companies, and in the row the actual observation results 99 companies experienced non-turnaround, so the overall accuracy of this model was 88.1%.:

Table 8: Classification Model Analysis

			Predicted		
	Observed Companies		**Non-Turnaround** **0**	**Turnaround** **1**	**Percentage Correct**
Step 1	Non-Turnaround	0	99	3	97.1
	Turnaround	1	12	12	50.0
	Overall Percentage				88.1

a. The cut value is 0.500

Source: processed data

Regression coefficient testing is the last step in the analysis process to determine the extent to which each dependent variable in the model influences the independent variables. The regression coefficient can be determined using Wald statistics and probability values (sig) as shown in Table 9 below:

Table 9: Regression Coefficient Test Result

	Iteration	**B**	**SE**	**Wald**	**df**	**Sig.**	**Exp(B)**
Step 1	EXP (X1)	1.481	1.611	0.845	1	0.358	4.395
	PROF (X2)	20.715	6.951	8.882	1	0.003	991428768.9
	ASRET (X3)	3.460	3.062	1.277	1	0.259	31.813
	FREAS (X4)	11.158	2.901	14.792	1	0.000	70131.052
	LEV (X5)	0.780	0.269	8.411	1	0.004	2.182
	Constant	-8.851	1.929	21.048	1	0.000	0.000

a. Variables entered on Step 1 EXP (X1), PROF (X2), ASRET (X3), FREAS (X4) dan LEV (X5)

Source: processed data

From the model above, the interpretation seen in the output variable display in the equation model analysis can be stated as follows:
Ln = -8.851 + 1.481 EXP + 20.715 PROF + 3.46 ASRET + 11.158 FREAS + 0.78 LEV
Logistic regression clearly shows that all independent variables are positively correlated, hence a higher value for EXP, PROF, ASRET, FREAS, or LEV indicates a better chance of a successful financial turnaround for the organisation.

Expense Retrenchment (EXP)

The results of the logistic regression test for the model shows that the expense retrenchment (EXP) variable consistently has a positive regression coefficient sign, with a probability value (sig) of 0.358 which is greater than the sig α value of 0.05, meaning that EXP has a positive effect on the probability of successful turnaround, but the effect is not significant. The results of this test also show that the sign matches the hypothesis, which means that reducing costs will encourage an increase in company profitability in the short term, as stated by Arogyaswamy and Yasai-Ardekani (1997) states that cost reduction increases a company's efficiency and profit margins, which are important factors for successful turnaround. Companies in financial crisis may increase their chances of a successful turnaround by cutting expenses, according to this study's findings, which corroborate those of Saragi et al. (2019). Meanwhile expense reduction does not affect the effectiveness of a company's turnaround in financial trouble, according to studies conducted by Chetta and Khomsiyah (2022) and Suratno et al. (2017).

Profitability (PROF)

The model's logistic regression test reveals that the profitability (PROF) variable consistently has a positive regression coefficient sign, with a sig α value of 0.05 and a probability value (sig) of 0.003. This indicates that PROF significantly and positively affects the likelihood of a successful turnaround. As a measure of profitability, the sign of the Return on Assets (ROA) figure matches the hypothesis being tested. The likelihood of a successful turnaround for the company is proportional to its ROA value. After deducting the expenses incurred to acquire these assets, return on assets (ROA) is a measure of a company's profitability. ROA can be used to measure the level of effectiveness of a company in managing the assets it owns and creating profits as explained by Brigham dan Houston (2001). The more efficiently the company manages its assets, the greater the profit it gets, the better the company's financial performance, and the company does not need to experience financial distress. The results of this research support the conclusions in previous research conducted by Wulandari and Gunawan (2016) and Lestari et al (2014), which reported that profitability influences positively the successful of financial turnaround by companies in financial distress.

Asset Retrenchment (ASRET)

The results of the logistic regression test for the model shows that the asset retrenchment (ASRET) variable consistently has a positive regression coefficient sign with a probability value (sig) of 0.259 which is greater than the sig α value of 0.05, meaning that asset retrenchment has a positive effect on the probability of turnaround success, however the effect is not significant, nevertheless the test's results are in agreement with the hypothesis. ASRET in this study is proxied by the percentage reduction in total assets from the previous year's total assets. Asset retrenchment is a consequence of a sharp decline in performance where the company's financial performance becomes very bad, according to Barker and Mone (1994), therefore an efficiency action by reducing company resources that are less effective and greatly influences the success of turnaround, according to Hambrick and Schecter (1983). The results of this research support papers written by Lestari and Triani (2014), as well as Kusumaatmaja (2021) which show that asset reductions have a positive influence on company turnaround success, but do not support the results of the Suhfriatiningsih (2014), as well as Wulandari and Gunawan (2016) study who do not accept that a decrease in assets can support the success of financial turnaround.

Free Asset (FREAS)

The logistic regression test for the model reveals that the free asset (FREAS) variable consistently has a positive regression coefficient sign, with a probability value (sig) of 0.00, which is less than the sig α value of 0.05. This implies that free assets significantly and positively impact the likelihood of a successful turnaround. The test's results are in agreement with the hypothesis, suggesting that high FREAS during the study period bode well for the company's turnaround prospects. In this analysis, FREAS is represented as total assets minus total debt as a percentage of

total assets. As found by Routledge and Gadenne (2000) that the availability of free assets is an important determining variable in distinguishing companies that successfully carry out a turnaround from companies that are unsuccessful. The results of this research support papers written by Chetta and Khomsiyah (2022) and Hirmanto et al (2020) which show that free assets have a positive effect on turnaround success, however not necessarily agre with result of study conducted by Darmayanti et al (2021) that concluded free assets do not have positive impact to the success of financial turnaround.

Leverage (LEV)

The results of the logistic regression test for the models show that the leverage (LEV) variable consistently has a positive regression coefficient sign with a probability value (sig) of 0.004 which is greater than the sig α value of 0.05, meaning that LEV has a positive and significant effect on the probability of turnaround success. A high leverage ratio during the study period is indicative of a higher likelihood of the company's turnaround success, according to the signals of this test, which means that the hypothesis is correct. In this study, the Debt to Equity ratio (DER) is used as a proxy for leverage. One way to understand where a business gets its operational cash is by looking at its leverage ratio. Another indicator of the dangers that the business faces is the leverage ratio. According to Paramasivan (2009), the likelihood of future profit generation is directly proportional to the level of risk that a company is exposed to. This study's findings corroborate those of Fitriyanto et al. (2018), who found that leverage significantly affects the likelihood of a successful financial turnaround. While previous studies have found no correlation between the leverage variable (DER) and turnaround success (Nasti et al., 2016; Giriati, 2022), our findings contradict those studies.

CONCLUSIONS AND SUGGESTIONS
Conclusions

In general, the results of this research are expected to increase theoretical understanding for companies, creditors and investors in considering the determinants of successful financial turnaround for companies experiencing financial distress. Through the results of hypothesis testing and conclusions, one can be convinced that expense retrenchment, profitability, free assets, asset retrenchment and leverage factors have a positive influence on financial turnaround success.

The results of this research support the opinion of Sudarsanam and Lai (2001) regarding the company's financial turnaround strategy which is the basis of this research, namely operational restructuring, asset restructuring and financial restructuring. Operational restructuring is the first turnaround strategy to be implemented in companies experiencing financial distress, in which efficiency measures are taken including expense retrenchment to achieve profitability in the short term. The better the company carries out expense retrenchment, the higher the company's efficiency, the higher the profitability, the greater the probability of the company's success in financial turnaround.

Asset restructuring in this research is represented by free assets and asset retrenchment factors. Free assets are company assets that are not guaranteed to creditors. The company's free assets will help the company to overcome the impact of worsening financial performance because companies that have more free assets have a greater chance of surviving during a downturn, according to Barker and Mone (1998) and Francis and Desai (2005). Asset retrenchment is a company's attempt to reduce the number of assets to avoid company decline and financial difficulties, according to Nastiti and Pangestuti (2016). The greater the reduction in unproductive company assets, the more it will help the company create a competitive advantage and ultimately increase the probability of success in carrying out a financial turnaround.

Financial restructuring is the restructuring of a company's capital structure to ease the pressure of paying interest and debt and is separated into two equity-based and debt-based strategies, according to Sudarsanam & Lai (2001). Financial restructuring in this research tests the leverage factor. George and Hwang (2010) and Routledge and Gadenne (2000) conclude that companies that

have debt can experience higher turnaround success. However, large debt will actually put the company in financial distress, because over leverage is usually the main cause of financial difficulties, according to Molina (2005). In debt there are elements of interest rates and currency which have a risk if the company is not wise in managing its debt, for this reason the company must be careful so that it does not get trapped in other financial difficulties.

Suggestions

For companies experiencing financial distress and trying to achieve success in financial turnaround, by knowing the influence of the variables expense retrenchment, profitability, free assets, asset retrenchment and leverage on the probability of success in financial turnaround, it is expected that this can be taken into consideration in taking effective strategies to achieve success. turnaround. However, it is necessary to know the factors causing the financial distress conditions experienced by the company so that appropriate strategies can be determined to overcome these conditions, for example whether financial distress is caused by ineffective internal operations so that efforts to improve internal management are needed or whether it is due to external factors such as the worsening national and global economic situation. For creditors, the determinants of financial turnaround success can be used to decide on granting loans to companies by analyzing the company's resilience in facing financial distress through considering the variables expense retrenchment, profitability, free assets, asset retrenchment and leverage, then determining policies in monitoring loans that have been granted. For investors, the determinants of financial turnaround success can help investors when assessing the possible financial condition of a company regarding the feasibility of investment plans in the company. This is because if bankruptcy occurs and liquidation continues, the investor is the last party to receive the remaining results of the liquidation process.

For academics, this research can add to the repertoire of research in the field of accounting, especially understanding the causes of financial distress, the financial turnaround cycle and the analysis process to determine the determinants of the success of financial turnaround in companies experiencing financial distress.

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