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DETERMINANT OF CORPORATE TURNAROUND: A REVIEW STUDY

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Abstract—The aim of this research is to discuss about factors that affect corporate turnaround with literature study. Corporate turnaround become a treasure to a company that had financial distress which can cause a company have bankruptcy. This literature study discusses some past research about factors can affect corporate turnaround. In this research we select the factors such as firm size, free asset and assets retrenchment as they represent from each corporate turnaround dimension

Keywords—corporate turnaround, corporate distress, firm size,free assets, assets retrenchment.

I. INTRODUCTION

Economic conditions are one of the contributing factors that directly affect the condition of a country. The success of a country in managing its economy is critically important to prevent a crisis. The financial crisis that typically occurred in 2008 in the American and European regions had an impact on many other countries, especially for developing countries in Asia such as Indonesia. Although the financial crisis that occurred at that time did not have too bad impact on Indonesia, some companies felt the effect on their company's performance. That situation made some companies experienced financial distress (losses). Because the decline in the company is one of the socio-economic problems, especially for developing countries, it is very important to correctly identify the causes and solutions.

However, not all companies that experience losses end in apparent failure and bankruptcy. Several companies are able to restore their position so that they can get profits again.Financial distressthat experienced by a company and then the company able to withdraw from these conditions to return into company's financial position at first place, it is called by turnaround. Pandit (2000) defines corporate turnaround as a recovery of the company's economic performance from a decline that threatens the existence of the company. Company sustainability can be helped by this recovery.

Turnaround is an attraction to be discussed with enthusiasm because many want to know how companies that have suffered losses can reverse direction so that they receive a bright spot to be able to return to their original position. Many researchers have linked turnaround to corporate financial distress. This is because financial distress are the reason why companies have to make a turnaround.Financial distress or corporate distress is the final condition of the decline in a company's performance like bankruptcy or liquidation (Platt and Platt, 2002). Corporate distress can be experienced by small and large scale companies, and can naturally occur in all industries (Schuppe, 2005). Many previous researchers used financial statements as material to assess the corporate distress.

This research focuses to discussion previous study about the success factors of company turnaround. According to Schweizer and Nienhaus (2017) corporate turnaround is divided into four dimensions, namely the content, process, context and outcome dimensions. In this study we selected one part from each corporate turnaround dimension.

One of the factors that have been studied first which influences the company's turnaround isfirm size. Differences firm size will naturally have various influences on turnaround. However, there are differences from the published results of previous studies, Pant (1991) found a significant relationship between turnaround success and firm size. Whereas, Francis and Desai (2005) found firm size did not affect corporate turnaround. Free assets are one of the variables also examined to have an influence on a turnaround. Free assets are company assets that are unguaranteed in the loan so that they can be withdrawn at any time. Smith and Graves (2005) found that free assets have impact to corporate turnaround. While, Makgeta (2010) found that free assets did not affect corporate turnaround. Assets retrenchment is anasset reduction done by deactivating unproductive assets so as to reduce maintenance costs. Robbin and Pearce (1992) and Francis and Desai (2005) found that asset retrenchment had a significant beneficial effect on the corporate turnaround. A various view from the key findings of Smith & Graves (2005) which states that company activities that maintain assets have precisely a positive effect on the success of the turnaround process. From the description above we are keenly interested in

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looking deeper about influence of factors to corporate turnaround from several previous studies?

II. Literature Review

A. Corporate Distress/Financial distress

Corporate distress or financial distress is the final condition of the decline in a company's performance which is undoubtedly a major disaster like bankruptcy or liquidation (Platt and Platt, 2002). Corporate distress can also be interpreted as a situation where a company experiences an unhealthy corporate financial condition (Suratno et al., 2017).Decreasing companies represent a negative image of company performance (Heine and Rindfleisch, 2013). The possible cause of the decline in company performance can be caused by internal and external factors. Internal factors can be in the form of management errors in HR, finance, marketing, operations and company planning. While external factors can obtain changes in demographics, economic conditions, natural disasters, technological developments, social norms, political systems and international interactions, the potential impact of international companies (Panicker and Manimala, 2015). Two important features that must be considered when identifying a decline in the company are: first, the final period of the company processes certain characteristics of its performance to be considered in the decline. Second, these characteristics take advantage of the company's performance to show the company has decreased (Bruton, et al., 2003).

Financial ratio can be early warning signal of business failure (Pearce, 2007). To measure financial condition we can use the Altman's Z-score, due to it is a strong measure. If the Z-score has a lower value, it can worsen financial health and therefore increases the likelihood of bankruptcy (Altman, 2000). The Altman Z-score is made for public manufacturing companies based on accounting-based risk and market value.Smith and Graves (2005) said that company is in danger or fails if the z-score is negative. While, company is classified as solvent if the z-score is positive.

B. Corporate Turnaround

Corporate turnaround is the recovery of the company's economic performance from the possible threat of decline that occurs (Pandit, 2000). A corporate turnaround can be defined as a condition where the company managed to escape financial difficulties that almost made it go bankrupt.

Some researchers identify the characteristics of companies experiencing financial distress but have the ability to properly recover, which is able to help official creditors and lenders in determining precisely whether to continue to provide loans or requests for liquidation and assist auditors in determining the continuity status of their client's business (Smith and Graves, 2005).

Schendel et al. (1976) stated that recovery strategies of companies experiencing financial distress can be divided into two, namely efficiency-oriented and entrepreneurial-oriented strategies. Efficiency-oriented strategies are carried out if the company experiences a decline due to operational inefficiencies, this effective strategy can be in the form of cost cutting and asset reduction. Meanwhile, entrepreneurial-oriented strategies are implemented if the strategies run by the company are no longer relevant to the current conditions, the company must make changes to adjust the current or new market conditions.

Two dominant features must be determined when identifying a company in decline, namely the maturity time, where a company must process certain characteristics for the company considered in decline, and those characteristics are used for the company's performance to indicate the company is experiencing a decline (Robbins and Pearce, 1992).

Based on Schweizer and Nienhaus (2017) corporate turnaround is divided into four dimensions, namely the content, process, context and outcome dimensions. According to Schweizer and Nienhaus (2017) content dimension analyzes various strategies and activities carried out during turnaround. This dimension discuss about what actions are successful and unsuccessful turnaround strategies composed of (Pandit, 2000)? This dimension contain of operational (such as: organizational process, product and sales, human capital and CAPEX), managerial (such as: CEO exchange, top management team exchange, board of directors), portfolio (such as: divestments, investments), financial (such as: debt restructuring, liquidity improvement). Process dimension analyzing the different stage and timing of turnaround. This dimension discuss about what are characteristics of successful turnaround managers (Pandit, 2000)? This dimension contain of retrenchment and recovery. Context dimension discuss about what are the causes of decline?Context dimension contain of underlying distress cause (such as: endogenous, exogenous), microeconomics (such as: size, ownership, etc.), macroeconomics (such as: legislation, industry, region). While, outcome dimension contain of turnaround success measurements.

Smith and Graves (2005) describe successful financial turnaround shows a situation where the company has two years of financial distress in a row (negative z-score) followed byrelative success condition (positive z-score)in two consecutive years.While, unsuccessful financial turnaround if company never recovered from the distress.

III. Methods

This academic research was a literature study. A literature study is a study conducted by looking for references to previous and relevant research theories to cases or problems to be discussed. This literature study collect randomly 16 (sixteen) previously published

research about factors that influence corporate turnaround.

The independent variable that will be seen as its influence on turnaround represents firm size, assets retrenchment, and free assets. The three of this independent variable represent every turnaround dimension there are content, process and context dimension. While, the outcome dimension is the value of corporate turnaround.

IV. Results and Discussion

A. Free assets on corporate turnaround

Free assets is part of content dimension. Free assets are company assets that unguaranteed in the loan so that they can be withdrawn at anytime. Free assets will support the company to reduce the effect of decreasing financial performance and provide resources to initiate effective action. Casey et al., (1986), Campbell (1996) and Routlege and Gadenne (2000) found that the number of free assets statistically influence corporate turnaround. To measure free assets Smith and Graves (2005) modified a formula:

$$free\ assets = \frac{Total\ tangible\ assets - Secured\ loans}{Total\ tangible\ assets}$$

Previous study had differend finding about the effect of free assets to corporate turnaround. Casey et al. (1986) Suratno et al. (2017) found that free assets have positive significant effect to successful corporate turnaround. It is indicate the greater free assets owened by a company, the greater successful of corporate turnaround. White (1984,1989) said that companies that have sufficient free assets are more possible to avoid bankruptcy. This is because free assets can increase a company's ability to obtain additional funds for successful turnaround.Free assets can be used as collateral for lending to lenders.

Smith anda Graves (2005) Makgeta (2010) Chenchehene and Mensah (2014) found that free assets have no effect to the success of company turnaround. The value of free asstes did not give effect to corporate turnaround. Makgeta (2010) said that free assets do not represent the rotation of company assets and free assets cannot be used as a primary guarantee for financial institutions to provide loans to companies (Makgeta, 2010).

B. Asset Retrenchment on corporate turnaround

Asset retrenchment is part of process dimension of turnaround. Assets retrenchment of an efficiency-oriented company by selling assets and reducing other costs is an important strategy in the success of the turnaround process (Robbin and Pearce, 1992; Morrow et al. 2004). Francis and Desai (2005) suggest that assets retrenchment can be measured by this formula:

$$Assets\ Retrenchment = \frac{Assets\ at\ Time\ 3}{Assets\ at\ Time\ 2} - 1$$

Previous study have differend finding about the effect of assets retrechment to corporate turnaround. Robbin and Pearce (1992) Bruton et al. (2003) Francis and Desai (2005) Smith and Graves (2005) found that assets retrenchment have positive significant effect to corporate turnaroud. It is indicate that the greater assets retrenchmen owened by company will give the better effect to company turnaround. Companies that pursue retrenchment have achieved better than average increases (Francis and Desai, 2005).

Hansen (2012) found that assets retrenchment has negative effect to corporate turnaround. Those finding is disturbed by potential econometric problems.

While, Barker and Mone (1994) Castroginovanni and Bruton (2000) found that assets retrenchment did not affect corporate turnaround. Barker and Mone (1994) said that retrenchment may be not an essential facilitator of corporate turnaround. Industry condition significantly affect retrenchment success (Morrow et al., 2004). Francis and Desai (2005) said that although retrenchment is a positive organizational strategy for many companies in declining.It may not be fully needed to achieve turnaround, especially if the company is very productive in utilizing its resources.

C. Firm size on corporate turnaround

Firm size is part of context dimension. Firm size can be determined as a characteristic of a company that has an effect on the final turnaround results (Haveman, 1993). Firm size carries out an important role in influencing turnaround because company size is a real resource (Francis and Desai, 2005). According to Smith and Graves (2005) company size measured by total of tangible assets and sales revenue. While in their paper some researchers measuring firm size with sales revenue, total assets and number of employees. Firm size also can be measured by the natural logarithm of the total number of employees in each year of company (Mueller and Barker, 1997; Morrow et al., 2004; Abebe et al., 2011).

Previous study had differend finding about the effect of firm size to corporate turnaround. White (1984, 1989) Smith and Graves (2005) Zeni and Ameer (2010)Evans et al. (2013) Chenchehene and Mensah (2013) Suratno et al. (2017)found that firm size has positive and significant effect to corporate turnaround. White (1984, 1989) states that large companies are better equipped to increase the need for funds so that they can survive.Large firm tend to respond better to the decline in performance and turbulent environment (Haveman, 1993).

Pant (1991) Bruton et al. (2003) found that size is negatively related to corporate turnaround.Pant (1991) Denis and Rodger (2007) said that large companies cannot reset as quickly as their peers are under pressure, so they have a lower chance of survival. Small companies will be more successful in achieving

turnaround because they are more straightforward to naturally adapt to changes in their environment than large companies. Hambrick and D'Aveni (1988) also said that large firm have complicated internal procedures and stakeholder relationships, which can slow their ability to give quick respond.

While, Francis and Desai (2005) Barker and Mone (1998) found that firm size has insignificant effect to corporate turnaround. In other words, firm size has no affect to corporate turnaround. Large organizations have strategic inertia, which can hinder rapid or substantial changes in the organization. Organizational size may not be relevant organizational buffering indicator, because whatever inertia it produces can compensate for profit size provided for companies in turnaround situations (Francis and Desai, 2005).

V. CONCLUSION

This academic study is a literature study of a corporate turnaround. This study found that corporate turnaround is something that is highly expected by companies when experiencing corporate distress. This study was properly conducted to provide information to the reader how the influence of the key factors taken represents dimensions that influence the success of turnaround. The difference in findings from previous studies (gap) is the essential part discussed in this study. This research has limitation, first we just sellect one indicator from every dimension to discuss in this paper so that many other factors didn't include in this research event they also have effect to corporte turnaround. Second, this research does not clarify the company, only the contributing factors that can affect company turnaround. We suggestion for the future research who want to discuss literature review of corporate turnaround can add other or more factors.

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