



Manufacturing company turnaround during the covid-19 pandemic

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ABSTRACT

The financial distress situation experienced by several Indonesian companies has led them to work diligently in achieving corporate turnaround. However, this has been exacerbated by the presence of the COVID-19 pandemic, which not only affects Indonesia but the world as a whole, resulting in a sluggish global economy. This research aims to examine the influence of management ownership, independent commissioners, and free assets on corporate turnaround during the COVID-19 pandemic. The research sample consists of 45 manufacturing companies listed on the Indonesia Stock Exchange from 2018 to 2021, selected through purposive sampling. The analysis method employed in this study is logistic regression analysis. The research findings indicate that managerial ownership does not significantly affect corporate turnaround. On the other hand, independent commissioners and free assets have a significant and positive influence on corporate turnaround.

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1. INTRODUCTION

The economic condition is one of the supporting factors that directly affects the state of a country. The success of a country in managing its economy is crucial to prevent crises. Especially with the presence of the COVID-19 pandemic, it has contributed to the decline of economies not only in individual countries but also globally. The Ministry of Manpower (KEMNAKER) conducted a survey revealing that the COVID-19 pandemic caused losses to 88% of companies. The situation worsens the financial distress conditions of several companies in Indonesia. Since the decline of companies is one of the socio-economic issues, particularly for developing countries, it is essential to accurately identify the causes and solutions (Butar-Butar et al., 2019).

Besides significant losses incurred by companies in Indonesia due to the COVID-19 pandemic, many Micro, Small, and Medium Enterprises (MSMEs) have also been impacted due to physical distancing and Large-Scale Social Restrictions (PSBB) imposed by both the central and local governments. This situation has been exacerbated by numerous layoffs and a decline in the overall macroeconomic conditions, which have shifted many businesses from the middle to lower economic strata (Money.kompas.com, 2020).

The contribution provided in this research is that the researcher aims to understand how Covid-19 affects finances to the extent that companies can endure during financial hardship. Additionally, the researcher explores whether companies experiencing financial difficulties can progress to achieve corporate turnaround. In this regard, the researcher also examines the factors that assist manufacturing companies in Indonesia in achieving corporate turnaround when the Covid-19 pandemic occurs in Indonesia.

This crisis has compelled companies to undergo restructuring in the form of Corporate Turnaround. When a company shifts dramatically from a strong performance position to an exceedingly weak position based on a suitable performance measure, it usually indicates significant issues with its management and strategic approaches (Sudarsanam & Lai, 2001). According to Pandit (2000), Corporate Turnaround is the process of recovering a company's economic performance from potential threats of decline. It involves implementing a series of actions necessary to rescue an organization from business failure and restore its operational normality and financial solvency. Corporate Turnaround typically requires strong leadership and may encompass company restructuring, root cause investigations of the failure, and long-term programs to revitalize the organization. Corporate Turnaround is undertaken by companies as a precautionary measure and as a step to address Financial Distress within the organization (Downey, 2009). To design a successful turnaround, a company requires someone with clear thinking to swiftly assess opportunities, identify what's wrong, develop novel strategies that have not been attempted previously, and implement an appropriate plan for carrying out that restructuring (Collard, 2010).

This strategy was carried out by PT Angkasa Pura I in 2022, where they implemented Corporate Turnaround to improve performance and create sustainable business operations. This move was taken in response to a significant decline in performance and business activities of Angkasa Pura I due to the COVID-19 pandemic outbreak (Industri.kontan.co.id, 2022).

Bibeault (1982) theorized that there are four key factors in achieving a successful turnaround. Firstly, the core operations that are financially viable and competitive must be identified and attained (narrowed down). Secondly, employee motivation must be maintained or enhanced. Thirdly, adequate financing must be negotiated to bridge the turnaround period, providing resources for innovation and sustaining operations. Lastly, there must be a new, energetic, competent, and fully supported management in place. All these factors are considered to be interdependent (Hoffman, 1989).

Management ownership is a situation where the managers or executives of a company also hold shares or direct ownership in the company. Top management ownership influences the resurgence of a company when it is facing financial management difficulties (Hofer, 1980; Schendel et al., 1976; Slatter, 1984). Management ownership can potentially pose problems for the company and affect corporate turnaround efforts. If management ownership is too substantial, it can lead to management domination over company decisions, disregarding the perspectives of minority shareholders and reducing accountability. Latham & Braun (2009) and Wild (2010) found that higher levels of management ownership actually correlated with poor company performance, facing increased risks of individuals losing their wealth in the company and being more inclined to limit investments in innovation. Moreover, excessive management ownership can lead to conflicts of interest, where managers may prioritize personal gains over improving the company's condition (Denis et al., 1997).

Independent commissioners are members of a company's board of directors who have no affiliation or direct interest in the company or its majority shareholders. Their role is to provide independent oversight of the company's policies and actions to protect the interests of all stakeholders. In the context of corporate turnaround, which refers to a company's efforts to restore performance and business sustainability during challenging times, the role of independent commissioners is crucial. However, in general, the presence of high-quality and integrity-driven independent commissioners can be a valuable asset in a company's efforts to effect change and restore business performance. Mueller & Barker III (1997) provide evidence that the presence of independent commissioners can limit managerial tendencies to prioritize self-interest and engage in opportunistic actions, such as awarding excessive compensation to themselves when a company is performing poorly. Independent commissioners are also concerned about their reputation, which may be affected by involvement in a company's failure (Boeker & Goodstein, 1991; Pearce & Zahra, 1992).

Francis & Desai (2005) and Singh (1986) stated that companies experiencing financial distress with sufficient free assets (such as assets exceeding liabilities or fixed assets exceeding debt guarantees) are more likely to succeed in avoiding bankruptcy (Barker & Duhaime, 1997; Barker & Mone, 1998). This is because it enables the company to obtain additional funds necessary for a

successful turnaround and serves as a tool to assure lenders or creditors that there are enough assets to repay the loans if needed. If the total debt exceeds the total assets owned by the company, it tends to lead to bankruptcy or an unsuccessful turnaround. Conversely, if the total debt is smaller than the total assets owned by the company, there is a chance for a successful turnaround (Darmayanti, et al., 2021).

2. RESEARCH METHOD

The sample in this research consists of all non-financial companies that experienced financial distress. This study will focus on companies within the non-financial sector listed on the Indonesia Stock Exchange (Bursa Efek Indonesia). The sample will be obtained using purposive sampling method, where secondary data from Financial Reports published by the Indonesia Stock Exchange will be utilized. The following criteria for purposive sampling are applied: (1) Manufacturing companies listed on the Indonesia Stock Exchange from 2018 to 2021; (2) Non-financial companies that have published complete financial reports from 2018 to 2021; (3) Non-financial companies that experienced Financial Distress at 2018; (4) Companies not listed in the IDX 80 between 2018 until 2021; and (5) Companies that are not included failed turnaround and successful turnaround.

In research, two types of variables are used, namely dependent variables and independent variables. The dependent variable used in the study is corporate turnaround, while the independent variables used are management ownership, independent commissioners, and free assets. The following table presents the operational definitions of the research variables:

Table 1. Variable Operational Definition

No	Variable	Measurement
1	Corporate Turnaround (Y)	Dummy Variable, Score 1 for companies that fail to perform corporate turnaround, and score 2 for companies that successfully achieve corporate turnaround.
2	Management Ownership (X ₁)	Ownership = number of shares owned by management/number of shares
3	Independent Commissioners (X ₂)	Independent = number of independent commissioners/number of all commissioner
4	Free Asset (X ₃)	Free Asset = 1 – (total debt/total asset)

This study uses the logistic regression analysis method. This test is applied to estimate the influence of independent variables on the dependent variable. The equation for the testing is as shown below:

$$Y = \alpha + X_1 + X_2 + X_3 + e \quad (1)$$

Note:

- α = Constanta
- β = Regression Coefficient
- Y = Corporate Turnaround
- X₁ = Management Ownership
- X₂ = Independent Commissioners
- X₃ = Free Asset
- e = Error

3. RESULTS AND DISCUSSIONS

Based on the sample selection process conducted according to the sample criteria, the research data is obtained as follows:

Table 2 . Research Sample

No	Criteria	Total
1	Manufacturing companies listed on the Indonesia Stock Exchange from 2018 to 2021	137
2	Non-financial companies that have not published complete financial reports from 2018 to 2021	(19)
3	Non-financial companies that no experienced Financial Distress at 2018.	(20)
4	Companies not listed in the IDX 80 between 2018 until 2021.	(18)

5	Companies that are not included failed turnaround and successful turnaround	(35)
	The number of samples selected	45
	4 years x 45 corporates	180

Source : processed data, 2023

Table 3. Coefficient of Determination

Model	-2 Log Likelihood	Cox & Snell R Square	Nagelkerke R Square
1	211,990	0,155	0,209

Source : Output from SPSS 21

Based on the data in the table above, the Nagelkerke R-square has a value of 0.209. This means that 20.9% of the dependent variable is explained by the independent variable, and the remaining 79.1% is explained by other variables.

Table 4. Hypothesis Testing

	B	S.E.	Wald	Df	Sig
X ₁	1,999	1,338	2,230	1	0,135
X ₂	-5,178	1,476	12,305	1	0,000
X ₃	1,811	0,579	9,776	1	0,002
Constant	1,659	0584	8,058	1	0,005

Source : Output from SPSS 21

The model above can be interpreted based on the display of the output variables in the equation analysis as follows:

$$Y = 1,659 + 1,999X_1 - 5,178X_2 + 1,811X_3 + e \quad (2)$$

The Influence of Managerial Ownership on Corporate Turnaround

The result of the first hypothesis test proved that management ownership does not have an influence on corporate turnaround. A turnaround takes place when a company successfully navigates a critical decline in performance that jeopardizes its existence. It overcomes this threat by employing a blend of tactics, systems, competencies, and capacities, ultimately leading to the restoration of sustainable performance (Binti & Ameer, 2010). Some managerial ownership may be passive and not actively involved in making strategic decisions for the company, thus limiting its impact on positive changes in corporate turnaround. The Covid-19 pandemic has caused significant disruptions in various industries and markets, forcing companies to take swift and strategic actions to survive and recover their performance. However, instead of reversing their fortunes and becoming successful again, during the pandemic, this management ownership tends to make decisions that keep the company in a safe or constant state without any significant performance supporting the company's success.

The results of this study differ from the findings of (Miglani et al., 2020), which indicated a positive effect of managerial ownership on corporate turnaround. This discrepancy arises due to the fact that higher managerial ownership enables managers to effectively utilize high working capital usage owing to the presence of surplus funds.

The Influence of Independent Commissioners on Corporate Turnaround

The results of the second hypothesis test reveal that independent commissioners have a positive influence on corporate turnaround. The presence of independent commissioners proves to be highly beneficial in safeguarding the interests of stakeholders. Especially during the Covid-19 pandemic, the oversight of managers and executives regarding the use of company assets is crucial to determine whether they have been using the company's assets effectively or not. This supervision requires the role of independent commissioners. The existence of independent commissioners is expected to improve the financial performance of companies facing financial distress that may arise during Covid-19, thus enhancing the company's liquidity and ultimately impacting the success of the company's turnaround process.

This is supported by the statements of Robbins & Pearce (1992), stating that the decline in financial performance is caused by inefficient operational activities, prompting the company to

implement efficiency-oriented recovery strategies. To successfully execute efficiency-oriented recovery strategies, oversight from independent commissioners is necessary. Efficiency-oriented strategies are crucial for the success of the turnaround process.

However, in general, the presence of high-quality and integrity-driven independent commissioners can be a valuable asset in a company's efforts to change direction and restore business performance. The success of a company in corporate turnaround is not only demonstrated by overcoming financial distress but also by effectively managing the challenges posed by the Covid-19 pandemic, which has caused global economic fluctuations.

The Influence of Free Asset on Corporate Turnaorund

The results of the third hypothesis test demonstrate that free assets have a positive and significant influence on corporate turnaround. When companies face financial distress during the Covid-19 pandemic, two situations may arise. Firstly, companies with free assets are more likely to successfully undergo corporate turnaround, while secondly, companies without free assets are more likely to fail in their corporate turnaround efforts.

This is supported by the statement of Darmayanti, et al., (2021), indicating that companies experiencing financial distress with sufficient free assets (such as assets exceeding liabilities or fixed assets exceeding collateral for debt) have a higher likelihood of avoiding bankruptcy. This is because it enables the company to obtain additional funds needed for a successful turnaround and serves as a tool to convince lenders or creditors that there are enough assets to repay the loans if necessary. If the total debt exceeds the total assets owned by the company, it is more likely to lead to bankruptcy or an unsuccessful turnaround. On the other hand, if the total debt is smaller than the total assets owned by the company, there is a chance of a successful turnaround.

4. CONCLUSION

The researchers estimated the influence of managerial ownership, independent commissioners, and free assets on company resilience during the COVID-19 pandemic. This research aims to examine how corporate turnarounds of companies occurred during the occurrence of Covid-19. The sampling involved manufacturing companies listed on the Indonesia Stock Exchange from 2018 to 2021. The researchers concluded that the COVID-19 pandemic significantly affected the financial condition of companies due to the global economic downturn. However, this study also provided evidence that numerous companies in Indonesia managed to persevere through Corporate Turnaround. The research findings indicate that managerial ownership does not significantly affect corporate turnaround. On the other hand, independent commissioners and free assets have a significant and positive influence on corporate turnaround. The researchers outlined several limitations as follows for important information: 1) This study only utilized three independent variables, and 2) A substantial number of samples were eliminated from the study due to many companies not updating their financial report data. For future research, it is recommended that the researcher expands the range of variables and research models. Additionally, it is advised to increase the sample size in order to achieve more diverse and varied results.

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