

DETERMINANTS ANALYSIS OF TURNAROUND: EMPIRICAL STUDY ON MANUFACTURING COMPANY REGISTERED IN INDONESIA STOCK EXCHANGE

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Abstract

This study examines the corporate turnaround which occurred in the company experiencing financial distress listing on the stock exchanges of Indonesia from 2010 to 2015. The purpose of this study is to prove the influence of company size, free assets, expenses retrenchment to corporate turnaround. Company size, free assets, and expenses retrenchment moderated by CEO turnover. While Company Size, free assets and expenses retrenchment moderated by independent audit committee. The sample used in this study is 21 companies after going through the sampling process purposive sampling. The research method in this research is using logistic regression and moderated regression analysis (MRA). The result shows the size of the company and free assets significant positive effect on the turnaround. Expenses retrenchment does not affect the turnaround process. CEO Turnover does not have a significant influence on the process of turnaround. Independent Audit Committee only affect or reinforce the results for the size of the company and free asset in conducting corporate turnaround, while at the expense retrenchment does not have a significant influence.

Keyword : corporate turnaround, logistic regression, moderated regression analysis

Abstrak

Penelitian ini bertujuan untuk menguji perputaran perusahaan pada perusahaan-perusahaan yang terdaftar di Bursa Efek Indonesia dalam kurun waktu 2010 hingga 2015. Penelitian ini akan membuktikan apakah terdapat pengaruh ukuran perusahaan, aset bebas, biaya penghematan terhadap perputaran perusahaan. Ukuran perusahaan, aset bebas, dan biaya penghematan dimoderasi oleh perputaran CEO. Kemudian ukuran perusahaan, aset bebas, dan biaya penghematan juga dimoderasi oleh independensi dari komite audit. Sampel yang digunakan dalam penelitian ini adalah 21 perusahaan dengan menggunakan teknik sampling purposive. Metode yang digunakan dalam penelitian ini ialah regresi logistik dan analisis regresi moderasi. Hasil penelitian menunjukkan bahwa ukuran perusahaan dan aset bebas berpengaruh positif terhadap perputaran. Biaya penghematan tidak berpengaruh terhadap proses perputaran. Perputaran CEO tidak berpengaruh terhadap proses perputaran. Independensi komite audit hanya berdampak pada ukuran perusahaan dan aset bebas untuk mengarahkan perputaran perusahaan, sedangkan biaya penghematan tidak berpengaruh.

Kata Kunci: perputaran perusahaan, regresi logistik, analisis regresi moderasi

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INTRODUCTION

Financial distress in the company is defined as a condition where the company's operating results are not sufficient to meet the obligations of the company (Insolvency). In a study conducted by Wruck (1990) cited in the study Whitaker (1999) mentions many factors could cause the company to face financial distress among others, the increase in operating costs, excessive expansion, exceptional technology, competitive conditions, economic conditions, the weakness of the company's management and decline in industrial trading activity. In bad economic conditions, most companies were experiencing financial distress is the result of poor management (Whitaker, 1999).

Corporate Turnaround is a condition where a company is experiencing financial distress are able to outside and back into the financial companies experiencing normal conditions. This issue is quite important because the condition of the capital market will not always be at the level below or the pitch is not always in a state of crisis. There will be a period when capital market conditions will return and be able to walk properly after a period of crisis. This is also reflected in the Indonesian capital market. Based on data from the Composite Stock Price Index Indonesian capital market in recent years can be seen that there has been a decline in the performance of the capital market conditions during the crisis, and then little by little improved performance after a period of crisis.

Good Corporate Governance is a process and structure used by the Organ Persero to increase the success of business and corporate accountability, in order to create shareholder value in the long term by taking into account the interests of other stakeholders, based on legislation and ethical values. In this study good corporate governance views of an independent audit committee. What is the number of audit committee independent owned. The audit committee is a group of people elected by a larger group, to do a specific job to perform specific tasks. Inside the company, this committee is very useful for dealing with problems that require the integration and coordination so that possible problems are significant or important be resolved soon (Wedari, 2004).

Research Smith dan Graves (2005) dperformed on companies listed on the London Stock Exchange for years of observations in 1980-1990. Meanwhile, research Francis and Desai (2005) used the situational variables and organizational determinants of the ability of the company as a turnaround of the company. The study uses a method of determining Corporate Turnaround different with Smith and Graves (2005). Francis and Desai (2005) used a time line established by observing the risk-free profit. The study was

conducted by observing the companies listed in the Standard Industry Classification (SIC) in America. Research Chandrawati (2008) is a full replication of the research studies Smith and Graves (2005). This study wants to combine the existing understanding on research Smith and Graves (2005) and Francis and Desai (2005).

Research Agustinus and Situmeang (2013) resulted in severity, company size, free assets, assets retrenchment, retrenchment expenses and CEO turnover together affect the ability of companies experiencing distress in conducting corporate financial turnaround. Company size, expenses retrenchment, and free assets partial effect on the ability of companies experiencing distress in conducting corporate financial turnaround. Severity, Assets retrenchment and CEO Turnover partial no effect on the ability of companies experiencing distress in conducting Corporate Financial Turnaround.

The purpose of this study is: to prove that the company size, Free assets, Expenses retrenchment, Company Size moderated by CEO Turnover, Free assets are moderated by CEO Turnover, Expenses retrenchment moderated by CEO Turnover, Company size is moderated by an independent audit committee, Free assets are moderated by an independent audit committee and Expenses retrenchment moderated by an independent audit committee has a positive influence on corporate turnaround.

METHOD

Sample in this research is all manufacturing companies experiencing financial distress. This study will use the object of research companies that are members of the non-financial sector in the Indonesia Stock Exchange. The samples will do by using purposive sampling method. The criteria to be used in determining the sample is as follows: First, the company in question is a registered company since 2010 up to 2015, no delisting, and its shares are actively traded in the Indonesian capital market. Second, the Company experienced ROI value below the risk-free interest rate at least 3years consecutive since 2010 to 2012. The type of data in this research is secondary data, quantitative data on the financial statements derived from the Indonesia Stock Exchange and financial magazine, which contains a list of good corporate governance index.

Characteristics of the dependent variable is dichotomous in this study support the use of logistic regression analysis that the success or failure turnaround turnaround. Logistic regression models were used Binary Logistic produce binary values for variables

such as numbers 0 and 1. The figure shows the numbers represent a particular category resulting from the calculation of probability teradinya that category. is to test whether the independent variables affect the success of the turnaround. The logistic regression models were proposed:

$$\ln \frac{R}{1 - R} = b_0 + b_1 \text{SIZE} + b_2 \text{FREEAS} + b_3 \text{EXPERET} + \epsilon$$

Where : SIZE = Size Companies; FREEAS = Free Asset; EXPERET = Expenses retrenchment

Moderated Regression Analysis (MRA) or the interaction test is a special application of multiple regression linear where the regression equation contains elements of interaction (multiplication of two or more independent variables) Testing the hypothesis H1a, H2a, H3a, H1b, H2b, and H3b This research will use a Moderated Regression Analysis (MRA) or interaction test. Moderated Regression Regression Analysis (MRA) with the following equation:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + (\beta_1 X_1 * M_1) + (\beta_2 X_2 * M_1) + (\beta_3 X_3 * M_1) + (\beta_1 X_1 * M_2) + (\beta_2 X_2 * M_2) + (\beta_3 X_3 * M_2) + e$$

RESULTS AND DISCUSSION

Hypothesis testing using logistic regression models to examine the effect of firm size, Free assets, Asset retrenchment of the corporate turnaround. The data used to analyze the variables, the data of financial statements in 2010-2015 in IDX.

Table 1. Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	14.385	8	.072

Sorce : data analysis

From the Table 1 amounted to 14.385 showed 0.072 Probability significance greater than 0.05 then H0 can not be rejected (accepted). This means a good and decent regression model used for further analysis, because there is no real difference between the predicted classification by classification were observed. Assessing the overall model (overall model fit) that can be seen from the value -2 Log Likelihood (- 2 LL) in Table 2.

Table 2. Overall Model Fit and Model Analysis

Iteration		-2 Log likelihood	Coefficients
			Constant
Step 0	1	174.165	.127
	2	174.165	.127

a. Constant is included in the model.

b. Initial -2 Log Likelihood: 174.165

c. Estimation terminated at iteration number 2 because parameter estimates changed by less than .001.

Table 2 shows that the value of -2 LL at the start (Block Number = 0), where the model including only constants amounted to 174 165, while the value of -2 LL when the Block Number = 1, where the model constants and variables enter freely dropped to 88 443, This means -2 LL Block Number = 0 is greater than the value -2 LL Block Number = 1 or the regression model is feasible or better. Table 4.2 also shows the value of Cox & Snell R Square of 0494 and the value Nagelkerke R Square of 0.659 which means that the variability of the dependent variable that can be explained by the variability of the independent variable at 65.9%.

Table 3. Model Summary

Step	-2	Log	Nagelkerke R Square
	likelihood	Cox & Snell R Square	
1	88.443 ^a	.494	.659

a. Estimation terminated at iteration number 6 because parameter estimates changed by less than .001.

Classification Table 2 x 2 calculates the estimated value of right and wrong. In the column are two predicted value of the dependent variable R (1) and NR (0), while on the line shows actual observed values of the dependent variable R (1) and NR (0) as shown in Table 4.

Table 4. Clasification Model Analysis

Observed			Predicted		Percentage Correct
			Corporate	Turnaround	
Step 1	Corporate	0	50	9	84.7
	Turnaround	1	13	54	80.6
Overall Percentage					82.5

a. The cut value is .500

Table 4 shows that in the column predicted a successful company in corporate turnaround as many as 67 companies, while in the line of the observation of actual successful conduct corporate turnaround as many as 54 companies, while for companies that fail to conduct corporate turnaround as many as 59 companies, and in line the observation of the real who failed to perform as many as 50 corporate turnaround firm. So the accuracy of the model as a whole amounted to 82.5% means that the model is in good condition because the value percentage above 50%.

Analysis of regression coefficient test to test how far all the independent variables included in the model have an influence on the dependent variable. The regression coefficient can be determined by using the Wald statistic and probability value (Sig.) As shown in Table 5.

Table 5. Test Results Analysis Model Logistic Regression Coefficients

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 ^a	Log_X1	1.815	.438	17.176	1	.000	6.143
	X2	4.851	.882	30.218	1	.000	127.865
	X3	.069	.531	.017	1	.897	1.071
	Constant	-26.214	5.742	20.843	1	.000	.000

a. Variable(s) entered on step 1: Log_X1, X2, X3.

From that model can be expressed interpretations viewed on the display output variable in the equation model analysis as follows:

$$\text{Ln} \frac{R}{1 - R} = - 26.214 + 1.815\text{SIZE} + 4.851 \text{FREEAS} + 0.069 \text{EXPRET}$$

From the logistic regression equation it can be seen that the variable size of the company's positive effect which means the greater of a company the more likely companies conduct corporate turnaround. Free assets and variable positive effect the bigger the better the chances of free assets of companies conduct corporate turnaround. Variable Expenses positive influence retrenchment retrenchment expenses are greater the more likely companies conduct corporate turnaround.

The variables that have a significant effect is that the value Signya <5% and wald statistic > 3,841 (chi square table), of the three variables tested the company size and free assets significantly influence corporate turnaround process. Which company has the size of 0.000 sig value of <0.05 and Free Assets have sig 0.000 > 0.05.

Each increasing in size company 100% then the chance to be able to do a turnaround would increase by 181.5%, the influence of company size on the chances of success due to the company's turnaround is large and has a name already getting the attention and confidence of investors, large companies that can perform a variety of strategies meningkatkan profit for the company, by issuing bonds, attracting investors and pursuing a strategy to increase the value of the company's competitiveness. Size large company has a good name in the eyes of investors and in the eyes of society so it is not easy for bankruptcy, major companies have a good management and strict financial management and growth of the company. This is the reason why large companies are able to get up again after experiencing financial distress. The results of this study are consistent with the results of research Chandrawati (2008) and Agustinus and Situmeang (2011) that produce a size significant positive effect on the success of its turnaround.

The larger of the free assets will be greater chances for success in turnaround. Having assets of companies that have not been used to help the company to bounce back as possible to capitalize upon these assets to new ideas, creation of new products, or anything else that can help companies compete in the market. Each increasing in assets, the opportunity to be able to do a turnaround would increase by 485.1%. With resource companies are still smoking will help the company absorb the decline in financial performance and provide the resources to take effective action, so that companies with more free resources have the possibility to survive better during a period of decline, and still be able to avoid financial problems is going. The results of this study are consistent with the results of research Chandrawati (2008) and Agustinus and Situmeang (2011).

Any increase in Expenses retrenchment of 100%, the chance to be able to do the turnaround will rise by 6.9%, so the influence Expenses retrenchment on the success of the turnaround only a few and not significant, mungkin due to the reduction in costs will affect the quality of the products, so that cost reduction is not the solution appropriate for manufacturing companies conduct corporate turnaround. Cost reductions can also cause many problems for large companies because it will reduce the amount of human resources and cut other costs that may cause the company to lose control to be able to rise again.

Testing Moderated Regression Analysis (MRA) was performed to test the hypothesis H1a, H1b, H2a, H2b, H3a, H3b reinforced by moderating variable is CEO Turnover and the Internal Audit Committee.

Table 6. The result of t-test

Model		Unstandardize		Standardized		Cut off	
		d Coefficients	Coefficients	Beta	t		Sig.
1	(Constant)	-1.999	.518		-3.858	.000	
	Log_X1	.186	.042	.305	4.395	.000	H1 – yes
	Free Assets	.327	.074	.351	4.386	.000	H2 – yes
	Exp Retrenchment	-.036	.115	-.064	-.313	.755	H3 no
	Log_X1M1	.011	.011	.125	1.004	.317	H1a no
	X2M1	.074	.102	.095	.728	.468	H2a no
	X3M1	-.077	.113	-.139	-.679	.498	H3a no
	Log_X1M2	-.043	.009	-.468	-4.742	.000	H1b yes
	X2M2	1.189	.241	.514	4.927	.000	H2b yes
	X3M2	.240	.187	.180	1.286	.201	H3b no

a. Dependent Variable: Corporate Turnaround

Based on the formulation of the problem and the hypothesis put forth in Chapter III, in analyzing the hypothesis moderation analysis used Moderated Regression Analysis (MRA) and the calculation using SPSS regression model is obtained as follows:

$$Y = -1.999 + 0.186X_1 + 0.327X_2 + -0.036X_3 + (0.011 * M_1) + (0.074 * M_1) + (-0.077 * M_1) + (-0.043 * M_2) + (1.189 * M_2) + (0.240 * M_2)$$

Indicates that company size is moderated by CEO Turnover has no significant effect on the turnaround process (H1a Denied). This is shown by the regression coefficient with a t-test value of its 1004 and 0317 a significant level ($P > 0.05$) Firm size with moderated by CEO turnover does not affect the turnaround process. Chandrawati (2008) also suggest that the CEO turnover does not affect the turnaround process. Each 100% increase in the size of the company that is moderated by CEO Turnover turnaround chances of success will only grow 1.1% and this is very small so it does not impact what - what the success of the turnaround process. Substitution CEO turnover at companies that have large does not give great meaning, because the company that was built with great management and the CEO mungkin not only factor at play.

Free assets affect the corporate turnaround with moderated by CEO Turnover showed free assets moderated by CEO Turnover does not effect on the turnaround process (H2a Denied). This is shown by the regression coefficient with a t-test value of its 0728 and 0468 a significant level ($P < 0.05$). Free Assets to be moderated by CEO turnover does not give effect to the turnaround process. Because every increase of 100% in Free

Assets moderated by CEO turnover is only 7.4% raise its beta value, and is also small which do not provide a meaningful impact.

Expense influence retrenchment of the corporate turnaround with moderated by CEO turnover resulted in retrenchment Expense influenced by CEO turnover does not significantly influence the turnaround process (H3a Denied). This is shown by the regression coefficient with the value of its t-test - 0679 and 0498 a significant level ($P > 0.05$). This means that every increase of 100% reduction in costs that are influenced by CEO turnover is only 7.7% so that the effect of cost reduction by replacing the CEO did not leave a great impact.

At the time of the replacement of the CEO and reduce costs at the company mungkin could be worse or getting better but from the research showed no significant effect, so that when the bad state of the company should not take this step should take another step. Expense retrenchment by moderated by CEO turnover does not affect the turnaround process. This indicates that with the smaller expense retrenchment by moderated by CEO Turnover does not affect the success of a company to rise and return to normal conditions. The influence of the corporate turnaround firm size to be moderated by an independent audit committee shows that the results of an independent audit committee significant effect on the size of the company in the corporate turnaround melakukan (H1b Accepted).

Each increase of 100% in the size of the companies affected by the independent audit committee will increase 43% on the success of the turnaround this means the size of the companies that have independent audit committees that can either succeed bankit and retraced to normal, the size of the company should memiliki independent audit committee to assess and control spending so as to guarantee the absence of corruption or fraud within the company, for fraud in the company can cause the company were destroyed, so it is necessary that an independent audit committee will assess the fair.

Effect of free assets of the corporate turnaround with moderated by an independent audit committee showed regression analysis free assets that are affected by the independent audit committee significant effect on the turnaround process (H2b Accepted). Each increase of 100% free assets will give the effect of 118.9% to the success of the turnaround, this gives considerable influence in the process of turnaround, due to the use of free assets controlled by independent audit committees can give good results in the use of free assets, such as would be used as it should be and stop to use it -sia. Independent

Audit Committee provides positive effect on the turnaround process. Because by having free assets a company can use it for the benefit of the company and strengthened by the existence of an audit committee for assets used will be monitored by a team of audit committee sehingga not misused.

Expense influence retrenchment of the turnaround process, shows that the retrenchment Expense no significant effect on the turnaround process (H3b Denied). Each increase of 100% Expense retrenchment will improve the chances of success of the turnaround by 24% this means the influence but not great and not significant. Cost reduction is a policy that if the management company is moderated by an independent audit committee no significant impact.

CONCLUSION

The size of the company and free assets significant positive effect on the turnaround, this proves that the bigger a company and the greater number of assets that are not used then to return to normal conditions as likely. Expenses retrenchment does not affect the turnaround process, indicating the size of the costs incurred by a company may not significantly affect the turnaround process. CEO Turnover does not have a significant influence on the process of turnaround, this means replacing or absence of company leaders do not make a significant impact. The Independent Audit Committee only affect or reinforce the results for the size of the company and free asset in conducting corporate turnaround. While at the expense retchment not have a significant influence. This proves that the Audit Committee be useful in strengthening the company size and free assets in conducting Corporate turnaround. While the retrenchment Expenses not have a significant impact.

Theoretical and practical implications of the research are: First, theoretical Implications: management was instrumental in the turnaround process, a company that has a good mangemen, will have greater opportunities in the turnaround process, because the management company only perusahaan of thinking how to get up and return to normal conditions. So for companies that want to go back and fix things perusahaan company must have good management and have an audit committee functions to control corporate spending and the use of company assets. Second, policy implications (practical): the results of the study can be seen the size of the company, free assets and independent audit committees have a significant influence on the process of turnaround. This means that the

larger the company and the more free assets owned and supervised by the independent auditors can increase the success rate of turnaround. Because the company can use the company name yan is populist and known in all circles and has assets that can be used to think about new ideas that the company is able to compete with the market and to be supervised by an independent audit committee turanaround then success can be expected.

This study has limitations or weaknesses that limit the perfection of this study, there are limitations in this study is expected to be considered and addressed by researchers in future studies. There are several limitations to this study include: First, the first number of companies studied was limited to manufacturing companies, while service companies and trading companies are also many who submit financial statements under a risk-free profit. Second, there are some other variables that have not been included and have the possibility to influence the Corporate Turnaround, good corporate governance with a different measurement, the number of kariawan company. Given the limitations or weaknesses of this study, the research is still needed on the same aspects to determine the consistency of the results of this study.

From the above results indicate the size of the company and free assets have a significant influence but only in manufacturing companies. Suggestions for further researchs is to add other variables such as: the trade and service companies, because these companies often also experience the ROI under a risk-free profit. In addition it may be able to examine the company SMEs to carry out research and experiments to see factor - motivating factors of success that a business can rise again and the company may consider the results for future reference.

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