

SURVIVAL STRATEGY UNDER PRESSURE: EXPENSES RETRENCHMENT, ASSETS RETRENCHMENT AND FREE ASSETS ON FINANCIAL TURNAROUND OF NEGATIVE EQUITY COMPANIES ON THE IDX (2022-2024)

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Abstract

This study aims to analyze the effects of expense retrenchment, asset retrenchment, and free assets on the probability of financial turnaround in companies with negative equity listed on the Indonesia Stock Exchange (IDX) during the period 2022–2024. The research begins by identifying firms with negative equity, followed by classifying those experiencing financial distress using the Altman Z-Score model. The sample comprises 46 companies selected through purposive sampling, based on the criterion of having published at least one annual report within the study period. Panel logistic regression is employed in this model using STATA software. The findings demonstrate that free assets have a statistically significant and positive influence on the likelihood of a financial turnaround. This suggests that firms with a higher proportion of unencumbered or readily available assets are better positioned to respond flexibly and swiftly to financial distress without resorting to cost-cutting or asset liquidation. Conversely, expense and asset retrenchment strategies do not show a significant impact, indicating that such measures alone may be insufficient to drive recovery in the absence of adequate financial buffers. This study is limited to financial variables and does not incorporate qualitative factors such as CEO characteristics. Future research is encouraged to include non-financial dimensions to enrich the understanding of effective turnaround strategies in distressed firms.

Keywords: *financial turnaround, negative equity, retrenchment strategy, free assets, logistic regression, financial distress*

1. INTRODUCTION

In a competitive and dynamic business environment, financial stability is a fundamental cornerstone of corporate survival. When a company fails to maintain a sustainable financial condition, it can enter into a vulnerable and high-risk state known as a financial distress (Ambarwati et al., 2025). In essence, the financial distress lies in the company's inability to face and resolve financial difficulties effectively (Suranta et al., 2023). Kristanti (2021) describes the financial crisis as the initial stage of a financial crisis that can lead to bankruptcy if the company is unable to fulfil its debt obligations.

Various models have been developed to identify companies in financial distress, including the Z-Score model (Altman, 1968), G-Score model (Grover, 2001), S-Score model (Springate, 1978), O-Score model (Ohlson, 1980), Probit model (Zmijewski, 1984), and hazard model

(Shumway, 2001). In addition to these models, some proxies are often used to measure financial distress, such as negative equity (Luu Thu, 2023), interest coverage ratio below one (Sehgal et al., 2021), and negative net income (Elloumi & Gueyié, 2001). In this study, negative equity is chosen as the initial indicator to identify financial distress among companies listed on the Indonesia Stock Exchange. This identification is based on the special monitoring board provided by the Indonesia Stock Exchange, which includes companies that are under special monitoring due to certain conditions, such as prolonged financial difficulties that may lead to bankruptcy (IDX, 2025).

Companies that successfully overcome the crisis that threatens their business continuity and achieve stable and sustainable performance are considered to have experienced a financial reversal (Bhattacharya et al., 2024). Financial turnaround refers to a condition in which a company is able to restore its financial position to a stable state after experiencing financial stress or difficulty (Tresnajaya et al., 2024). Achieving financial turnaround is not impossible. Several Indonesian companies, such as PT Djarum and PT Sidomuncul, have successfully emerged from financial difficulties and achieved financial turnaround (Temali, 2019). However, not all companies have been able to replicate these results. PT Sritex, for example, failed to execute a successful financial turnaround and was eventually declared bankrupt due to its inability to manage its excessive debt burden (Fatmayuni & Ambarwati, 2023).

Previous studies have exhaustively examined the determinants of successful financial recovery strategies. Generally, these determinants can be categorised into external factors, such as macroeconomic dynamics in Indonesia, and internal factors, including asset reduction, cost efficiency, workforce reduction, and strategic decisions taken by the managing director (Primawan et al., 2024). This study focuses on internal factors that may affect the likelihood of financial turnaround success, namely expenses retrenchment, asset retrenchment, and free assets.

Expenses retrenchment is an operational strategy related to expenses retrenchment efforts, including cost rationalisation covering the cost of goods sold as well as selling, general, and administrative costs (Primawan et al., 2024). Asset retrenchment refers to a corporate strategy that involves reducing or disposing of unproductive or underperforming assets to stop further financial decline (Gustina et al., 2024). Free assets, on the other hand, are a collection of unrestricted assets that are considered as critical variables that distinguish companies that successfully implement turnaround strategies from those that fail to do so (Gustina et al., 2024). These three variables are used in this study to analyse whether they significantly influence the success of financial turnaround strategies implemented by companies in distress.

While there has been a great deal of research on financial distress, there is still a clear research gap regarding financial turnaround as the end result of such distress, which has received relatively less academic attention. Most previous research has focused on predicting financial distress or bankruptcy using conventional financial models and ratio indicators such as Z-Score, rather than analysing the recovery process and post-distress outcomes (Altman, 1968; Shumway, 2001). In addition, empirical studies rarely identify firms in crisis using negative equity based on regulatory monitoring mechanisms, such as the securities watchlist on the Indonesia Stock Exchange (IDX, 2025). Evidence on the effectiveness of internal recovery strategies also remains unclear, especially regarding cost reduction, asset reduction, and the role of free assets, and such evidence is scarce in the context of emerging markets such as Indonesia (Bhattacharya et al., 2024; Gustina et al., 2024; Primawan et al., 2024).

2. LITERATURE REVIEW

2.1. Financial distress

Financial distress refers to a serious condition in which a company experiences financial difficulties to the point of being unable to fulfil its debt obligations, potentially leading to

bankruptcy (Fatmayuni et al., 2024). If the company is able to recover from this condition, there is still a chance to restore financial health. However, failure to survive the financial distress will eventually lead to bankruptcy. A financial distress can also be defined as a loss of operating profits and cash shortages that can trigger bankruptcy (Altman & Hotchkiss, 2005).

Financial distress usually begins with an initial distress stage, where management attempts to address emerging problems through specialised strategies. If these efforts fail, the company enters a stage of financial distress, although recovery is still possible through evaluation of liquidity, profitability and operational performance (Kristanti, 2021). When the performance decline continues without effective solutions, the company reaches the failure stage and faces two possible outcomes. The company may pursue recovery through debt restructuring and achieve financial recovery, or ultimately face bankruptcy if there is no viable solution (Outecheva, 2007).

2.2. Financial turnaround

Financial turnaround refers to a situation in which a company is able to restore its financial condition to a stable state after experiencing financial distress or financial crisis (Tresnajaya et al., 2024). Companies that successfully overcome a crisis that threatens their business continuity and return to stable and sustainable profits are considered to have experienced a financial turnaround (Bhattacharya et al., 2024). Financial turnaround is a dynamic process that involves assessing the company's financial condition, identifying the main causes, and implementing strategies aimed at improving financial performance to survive and grow again (Pretorius, 2008).

The proxy used in this study follows Primawan et al. (2024) and classifies firms into two categories. Category 0 represents firms that consistently experience financial distress, measured using the Altman Z-Score, with no indication of recovery. Category 1 represents firms that are past financial distress, measured using the Altman Z-Score, and show indications of recovery. The Altman Z-Score is applied to determine whether a company is classified as financially distressed or financially healthy, using the following formula:

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

The interpretation is as follows: 1) Z-Score greater than 2.99 indicates that the firm is financially healthy or in the non-bankrupt zone; 2) Z-Score between 1.81 and 2.99 falls within the grey area; 3) Z-Score below 1.81 indicates a high probability of bankruptcy (Altman, 1968).

2.3. Expenses retrenchment

Expenses retrenchment are part of an operational strategy that focuses on comprehensive cost reduction efforts. This strategy includes various efficiency measures, such as rationalising the cost of goods sold and reducing selling, general and administrative expenses (Primawan et al., 2024). Basically, Expenses retrenchment aim to reduce corporate expenses to ensure survival under financial pressure. Chetta & Khomsiyah (2022) described this strategy as a form of operational efficiency achieved by reducing unproductive costs without compromising the continuity of the company's core activities. The proxy used in this study refers to Gustina et al. (2024) and is measured using the following formula: $ER = (TE_t - TE_{t-1}) / TE_{t-1}$.

2.4. Asset retrenchment

Asset retrenchment is a corporate strategy that involves the reduction or disposal of unproductive or underperforming assets, with the primary objective of halting financial decline (Gustina et al., 2024). This strategy is based on the rationale that disposing of assets that are not optimally contributing to the firm's performance can help stop the downward financial trend and drive improvements in operational and financial performance (Primawan et al., 2024). The proxy

used in this study follows Gustina et al. (2024) and is measured using the following formula: $AR = (FY_t - FY_{t-1}) / FY_{t-1}$.

2.5. Free Assets

Free assets refer to the pool of unrestricted assets that are considered a crucial variable in distinguishing firms that successfully implement turnaround strategies from those that fail to do so (Gustina et al., 2024). Companies with sufficient free assets have a greater chance of avoiding bankruptcy, as these assets can be used to obtain additional funding or guarantee loans (Primawan et al., 2024). The proxy used in this study follows Primawan et al. (2024) and is measured using the following formula: $FrA = 1 - (TL/TA)$.

2.6. Influence between variables

Previous studies report inconsistent findings regarding the relationship between independent variables and financial recovery. The independent variables analysed in this study include expense retrenchment, asset retrenchment, and free assets.

Expense retrenchment is an operational strategy that focuses on comprehensive cost reduction (Primawan et al., 2024). Tresnajaya et al. (2024) found that Expense retrenchment has a significant positive effect on financial turnaround, as this strategy directly reduces cost burden, increases cash flow, and improves operational efficiency. This statement is in accordance with research conducted by Baliuskas et al. (2023); Wang & Bai (2024) who stated expense retrenchment has a significant positive effect on financial turnaround. Flammer & Ioannou (2021) found expenses retrenchment may have a negative effect on financial turnaround because excessive cost-cutting can weaken a firm's strategic capacity during distress. On the other hand, Primawan et al. (2024) reported that expense retrenchment does not have a significant effect on financial turnaround, as the cost reduction implemented by the CEO may not be targeted or too extreme. This statement is in accordance with research conducted by Baliuskas et al. (2023) who stated expense retrenchment does not have a significant effect on financial turnaround. Based on these arguments, the following hypothesis is proposed:

H₁: Expense retrenchment has a significant positive effect on the probability of financial turnaround.

Asset retrenchment involves the reduction or disposal of unproductive assets (Gustina et al., 2024). Empirical findings regarding its impact are still inconsistent. Wulandari & Fidiana (2024) documented a significant positive relationship between asset retrenchment and financial turnaround, arguing that this strategy improves efficiency, reduces fixed costs, and allows firms to refocus on profitable business units, thus supporting recovery (Yudiyanto & Manggarani, 2022). Rico & Puig (2021) and Rico et al. (2021) found significant negative relationship between asset retrenchment and financial turnaround. In contrast, Primawan et al. (2024) found no significant effect of asset retrenchment on financial turnaround, suggesting that inadequate managerial analysis might prevent asset retrenchment from addressing core business issues (Gustina et al., 2024; Tresnajaya et al., 2024). Based on these findings, the following hypothesis is proposed:

H₂: Asset retrenchment has a significant positive effect on the probability of financial turnaround.

Free assets represent unrestricted resources that distinguish firms that are able to recover from those that are unable to recover (Gustina et al., 2024). Previous studies also show mixed results. (Chetta & Khomsiyah, 2022) and (Primawan et al., 2024) found that free assets have a significant positive impact on financial turnaround, as they provide financial flexibility and allow firms to meet urgent liabilities or invest in recovery strategies. However, (Novi et al., 2021) reported no significant impact, arguing that free assets may not contribute to recovery if they are

not effectively utilised to finance recovery initiatives. Based on these findings, the following hypotheses are proposed:

H₃: Free assets have a significant positive effect on the probability of financial turnaround.

2.7. Research framework

Based on the literature review, the following research framework is made:

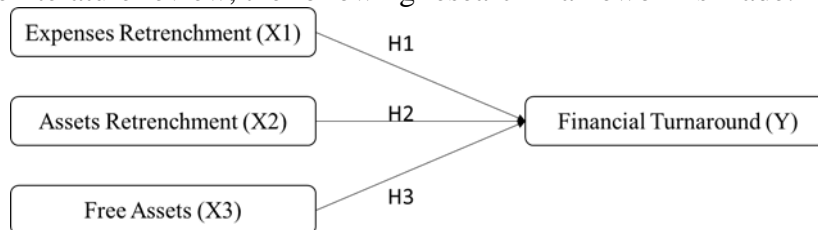


Figure 1. Research framework

3. RESEARCH METHODS

This study uses a quantitative research design and utilises secondary data. This study analyses the effect of expense retrenchment (X₁), asset retrenchment (X₂), and free assets (X₃) on financial turnaround (Y). The study population consists of 53 companies listed on the Indonesia Stock Exchange (IDX) that have negative equity (IDX, 2025). The sample was selected using purposive sampling with the following criteria: (1) the company published at least one financial report during the observation period; and (2) the company was not classified as bankrupt. Based on these criteria, 46 firms were included in the final sample, resulting in 167 firm-year observations.

This study involves three independent variables (expense retrenchment, asset retrenchment, and free assets) and one dependent variable (financial turnaround), as described in Table 1.

Table 1 Operational variable

Variable	Proxy
financial turnaround (Y)	- Category 0 if the firm consistently experiences financial distress - Category 1 if the firm passes through financial distress (Primawan et. al, 2024)
Expenses retrenchment (X ₁)	$ER = \frac{\text{Total Expenses } t - \text{Total Expenses } t-1}{\text{Total Expenses } t-1}$ (Gustina et al., 2024)
Asset's retrenchment (X ₂)	$AR = \frac{\text{Total Assets } t - \text{Total assets } t-1}{\text{Total assets } t-1}$ (Gustina et al., 2024)
Free assets (X ₃)	$FrA = 1 - (TL/TA)$ (Primawan et. al., 2024)

This study uses STATA 17 and applies a panel logistic regression model to estimate the probability of financial recovery among companies with negative equity listed on the Indonesia Stock Exchange. The first step of data analysis is descriptive statistics, which is used to summarise and describe the distribution of the data. Next, panel logistic regression was performed as the dependent variable is binary. Financial recovery is coded as 0 for firms that consistently experience financial distress and 1 for firms that are able to pass through financial distress (financial turnaround). The logistic regression model is specified as follows:

$$FT_{(1=FT|0=Non\ FT)} = \ln\left(\frac{p_i}{1-p_i}\right) = \beta_0 + \beta_1 X_1 + \dots + \beta_3 X_3 + \varepsilon$$

(Hosmer & Lemeshow, 2000, p. 31)

FT = Financial turnaround (Y)

 P_i = Probability of the firm experiencing financial turnaround X_1 = Expenses retrenchment (X_1) X_2 = Asset's retrenchment (X_2) X_3 = Free assets (X_3)

Model fit was evaluated using the Hosmer-Lemeshow fit test. This test assesses whether the logistic regression model adequately represents the observed data. The decision criterion is based on the probability value (Prob > Chi-square). If the probability value is less than 0.05, the model is considered unsuitable and unable to adequately explain the data. Conversely, if the probability value exceeds 0.05, the model is considered acceptable and appropriate for use in this study.

In addition, this study compared the fixed effects logit and random effects logit specifications to determine the most appropriate panel logistic model. This comparison was done to account for possible unobserved heterogeneity between firms. The joint effects model was not considered as it assumes the absence of individual differences in the panel data. The study also conducted a multicollinearity test to identify high correlations among the independent variables, which may destabilise the coefficients and reduce the reliability of the regression estimates.

In addition, this study uses the odds ratio to interpret the relationship between variables. The odds ratio indicates that as the independent variable increases, the probability of financial recovery also increases (Hosmer & Lemeshow, 2000). The odds ratio is formulated as follows:

$$OR = \frac{\pi(1)/[1-\pi(1)]}{\pi(0)/[1-\pi(0)]}$$

4. RESULTS AND DISCUSSION

4.1. Descriptive analysis

Descriptive analysis was conducted to summarise the characteristics of the sample and the distribution of the variables examined in this study (Sekaran, 2021). The results of the descriptive analysis are presented in Table 1.

Table 1 Descriptive analysis

Variable	Obs	Mean	Std. Dev	Min	Max
Y_FT	167	.1796407	.3850425	0	1
ER_X ₁	167	.281137	1.922279	-2.02027	16.04393
AR_X ₂	167	.0690043	1.163554	-	12.88937
FrA_X ₃	167	-	31.69793	-	.9958482
		8.777095		276.3217	

Source: Processed secondary data using STATA 17.

Based on Table 1, some important findings can be identified regarding the distribution and variability of the variables in this study.

First, financial turnaround (Y_FT) is a binary dependent variable, coded as 0 and 1. The mean value of 0.1796 indicates that approximately 17.96% of the observations are classified as financial turnaround firms. The standard deviation of 0.3850 is consistent with the nature of

binary variables, where dispersion is inherently limited. This distribution also suggests that financial turnaround represents a relatively rare outcome in sample of firms with negative equity.

Second, expense retrenchment (ER_X1) has a mean of 0.2811 with a standard deviation of 1.9223. The standard deviation being much larger than the mean indicates high dispersion and significant heterogeneity across firm-year observations. This pattern indicates that cost reduction behaviour varies widely among distressed firms. Some firms seem to implement significant reductions in total costs, while others may increase costs, which may reflect differences in management response, restructuring intensity, or operational pressures during times of distress.

Third, asset retrenchment (AR_X2) reports a mean of 0.0690 and a standard deviation of 1.1636. While the mean value indicates a relatively small change in total assets across the sample, the relatively large standard deviation indicates significant variation. This suggests that while some firms divest assets or scale down, other firms expand or maintain their asset base, which may reflect differences in recovery approaches, access to funding, or the feasibility of selling assets in certain industries.

Fourth, free assets (FrA_X3) shows an average of -8.7771 with a very large standard deviation of 31.6979. Negative mean indicates that, on average, firms in the sample are characterised by very high leverage. The magnitude of the standard deviation indicates a very wide spread and the presence of extreme values. This suggests that firms differ significantly in their financial flexibility. Some firms may maintain relatively higher levels of unrestricted assets, while others face severe constraints due to excessive liabilities relative to total assets, which may reduce their ability to obtain additional financing and limit feasibility of implementing recovery strategies.

4.2. Model Fit – Uji Hosmer-Lemeshow

Before conducting logistic regression analysis, model fit should be evaluated using the Hosmer-Lemeshow test (Hosmer & Lemeshow, 2000). The results are reported in Table 2. This test evaluates the extent to which the observed results are consistent with the probabilities predicted by the logistic model, and serves as an important diagnostic tool to assess whether the model specification fits the data.

Table 2. Goodness of fit (hosmer – lemeshow after logistic model)

Number of servations =	167
Number of groups =	10
Hosmer–Lemeshow chi2(8) =	7.95
Prob > chi2 =	0.4386

Based on the Hosmer-Lemeshow model fit test reported in Table 2, the value of the chi-square statistic is 7.95 with 8 degrees of freedom, and the probability value (Prob > chi2) is 0.4386. Since this probability exceeds the significance level of 0.05, the null hypothesis of good model fit cannot be rejected. Therefore, the results indicate that the logistic regression model shows adequate fit.

4.3. Panel logistic regression model selection

Model selection was conducted to determine the most appropriate panel logistic regression specification for this study. Table 3 shows the results of the panel logistic regression model comparison.

Table 3 Panel logistic regression model selection

Y_FT	CE Model		FE Model		RE Model	
	Coef	P> z	Coef	P> z	Coef	P> z
ER_X ₁	-0.267	0.363	0.309	0.886	-0.212	0.769
AR_X ₂	-0.169	0.702	0.614	0.696	0.289	0.539
FrA_X ₃	2.243	0.000*	10.219	0.072	11.003	0.002*
_cons	-1.025	0.000*	-	-	-4.667	0.001*

Note: * significant at 0.05

To determine the most appropriate analytical specification, this study compares fixed-effects (FE) and random-effects (RE) panel logistic models using the Hausman test. Given the possibility of heterogeneity across firms, the CE specification is considered inappropriate for the structure of the data analysed in this study. The results of the Hausman test are presented in Table 4.

Table 4. Hausman Test

Variable	Coefficients		(b-B) difference	Sqrt (diag(V _b - V _B)) Std. err.
	(b) fixed	(B) random		
ER_X ₁	0.309	-0.212	0.520	2.024
AR_X ₂	0.614	0.289	0.324	1.499
FrA_X ₃	10.219	11.003	-0.784	4.400

$$\chi^2(3) = (b-B)'[(V_b-V_B)^{-1}](b-B) = 0.15$$

$$\text{Prob} > \chi^2 = 0.9854$$

Based on Table 4, the Hausman test reports a chi-square value of 0.15 with a probability (Prob > χ^2) of 0.9854, which is well above the 0.05 significance level. This indicates that there is no statistically significant difference between the FE and RE coefficient estimates. Therefore, the null hypothesis is not rejected, and the random effects model is considered more efficient and appropriate for the panel logistic regression analysis in this study.

4.4. Multicollinearity test

The multicollinearity test is conducted to detect high correlation among independent variables, which may destabilise the coefficient estimates in the regression model. This test is conducted using the Variance Inflation Factor (VIF). The results are presented in Table 5.

Table 5 Multicollinearity test

Variable	VIF	1/VIF
ER_X ₁	1.07	0.937
AR_X ₂	1.06	0.944
FrA_X ₃	1.01	0.992

Based on Table 5, the multicollinearity test shows that all independent variables have Variance Inflation Factor (VIF) values below 10. This suggests that multicollinearity is not a problem, and the regression estimates are unlikely to be distorted by high correlation among the predictors.

4.5. Panel logistic regression (random-effects model)

Based on panel logistic regression results, the estimated random-effects model is reported in Table 6.

Table 6. Panel logistic regression (random-effects model)

Number of obs = 167
 Prob > chi2 = 0.0204

FT_Y	Coeff	Std. errs.	z	P > z	[95% conf. interval]	
ER_X ₁	-0.212	0.720	-0.29	0.769	-1.623	1.199
AR_X ₂	0.289	0.470	0.61	0.539	-0.633	1.211
FrA_X ₃	11.004	3.580	3.07	0.002	3.987	18.020
_cons	-4.667	1.447	-3.22	0.001	-7.504	-1.830

Source: Processed secondary data using STATA 17

Table 6 shows that among the independent variables included in the model, only FrA_X3 is statistically significant, with a P>|z| value below the 0.05 threshold. The sign of each coefficient indicates the direction of the relationship. A positive coefficient indicates that an increase in the variable in question is associated with a higher probability of financial turnaround, while a negative coefficient indicates that an increase in the variable is associated with a lower probability of financial turnaround. The estimated random effects panel logistic regression model is expressed as follows:

$$FT(1|0) = -4.667 - 0.212 ER_X_1 + 0.289 AR_X_2 + 11.004 FrA_X_3$$

4.6. Panel logistic regression analysis (odds ratio)

The odds ratio indicates how the likelihood of an event, namely financial turnaround, changes when an independent variable increases by one unit, holding other variables constant. The odds ratio results are reported in Table 7.

Table 7. Panel logistic regression (Odds ratio)

Number of obs = 167
 Prob > chi2 = 0.0204

FT_Y	Odds	Std. errs.	z	P > z	[95% conf. interval]	
ER_X ₁	0.809	0.582	-0.29	0.769	0.197	3.317
AR_X ₂	1.335	0.628	0.61	0.539	0.531	3.358
FrA_X ₃	60098.16	215156.9	3.07	0.002	53.887	6.70e+07
_cons	0.009	0.014	-3.22	0.001	0.0005	0.160

Source: Processed secondary data using STATA 17

Based on Table 7, the odds ratio results can be interpreted as follows:

4.6.1. Constant (_cons)

The constant odds ratio of 0.009 indicates that when expense retrenchment, asset retrenchment, and free assets are assumed to be zero, the baseline probability of financial turnaround is very low, around 0.9%. This finding highlights that, for firms in distress, recovery is unlikely without internal restructuring efforts and, more importantly, without financial flexibility. In other words, the baseline conditions of firms in distress reflect a highly constrained environment in which financial recovery is not the default outcome.

4.6.2. Expense retrenchment (X_1)

The odds ratio for expense retrenchment is 0.809, indicating that a one-unit increase in expense retrenchment is related to a 19.1% decrease in the odds of financial turnaround, with other variables held constant. Although the direction of the coefficient suggests that expense retrenchment might reduce the odds of recovery, this effect is statistically insignificant (p value = $0.769 > 0.05$). This result suggests that expense retrenchment alone may not be sufficient to produce a recovery. Aggressive expense retrenchment may weaken operational capabilities, reduce revenue-generating capacity, or reflect reactive rather than strategic restructuring. However, due to the lack of statistical significance, this study cannot conclude that expense retrenchment systematically affects turnaround probability.

4.6.3. Asset retrenchment (X_2)

The odds ratio for asset retrenchment is 1.335, indicating that a one-unit increase in asset retrenchment is associated with a 33.5% increase in the odds of financial turnaround. This suggests a positive relationship between asset retrenchment and recovery, in line with the argument that divestment of unproductive assets can improve efficiency and reduce fixed costs. However, this relationship is not statistically significant (p value = $0.769 > 0.05$). This suggests that, in the sample of firms with negative equity, asset retrenchment does not consistently result in a higher probability of financial turnaround. This may be because asset divestment can be difficult to implement during a crisis, may not generate sufficient cash, or may be constrained by weak market conditions and limited asset liquidity.

4.6.4. Free assets (X_3)

The odds ratio for free assets is 60,098.16, which means that a one-unit increase in the free assets ratio dramatically increases the odds of a financial turnaround occurring, by approximately 60,098 times, assuming other variables remain constant. The p value of 0.001 indicates that this effect is statistically significant at the 1% level. These results provide strong evidence that free assets play a decisive role in facilitating recovery among firms with negative equity. Substantially, these findings suggest that financial flexibility is a key mechanism through which firms in distress can survive and recover, as free assets can be used to obtain additional financing, fulfil urgent liabilities, and finance restructuring initiatives. The very large magnitude of the odds ratio also suggests that recovery outcomes are highly sensitive to variations in free assets, especially in a sample characterised by severe leverage and limited access to external capital.

4.7. Discussion - influence between variables

4.7.1. Expenses retrenchment does not have a significant effect on the probability of a company undergoing a financial turnaround

Expenses retrenchment is an operational strategy focused on comprehensive cost reduction through efficiency measures, including the rationalisation of cost of goods sold and reductions in selling, general, and administrative expenses (Primawan et al., 2024). The primary objective of this strategy is to suppress corporate expenditure so that firms can survive under financial pressure (Chetta & Khomsiyah, 2022). However, the findings of this study indicate that expenses retrenchment does not have a statistically significant effect on the probability of financial turnaround. This result suggests that cost-cutting does not automatically translate into recovery, particularly among firms with negative equity where distress is typically severe and structural rather than temporary.

A plausible explanation is that firms with negative equity usually face constraints that cannot be solved through operational cost reductions alone. First, expenses retrenchment may improve cash flow in the short term, but it does not necessarily restore the firm's ability to generate sustainable revenues. When the firm's core business model weakens, demand declines,

or competitive positioning deteriorates, reducing costs may only slow down the decline rather than reverse it (Chetta & Khomsiyah, 2022). Second, expenses retrenchment is highly sensitive to managerial precision. If management cuts costs in areas that support operational capability, such as marketing, maintenance, distribution, or quality control, the firm may experience reduced performance capacity, which weakens sales and aggravates distress (Primawan et al., 2024). Third, expenses retrenchment may reflect a reactive response to distress rather than a strategic restructuring programme. In such cases, expenses retrenchment becomes a survival tactic rather than a turnaround driver, and its effect on financial turnaround becomes statistically weak. This aligns with the argument that retrenchment can become ineffective when it is poorly targeted or excessively extreme, particularly when CEO decisions focus on short-term reductions without aligning them with broader recovery actions (Primawan et al., 2024). This mechanism is consistent with the case of PT Sri Rejeki Isman Tbk, where cost-efficiency efforts, including leasing assets to sustain operations, were insufficient to prevent bankruptcy, indicating that cost reductions alone may not overcome deep financial distress.

In terms of prior evidence, this study's findings are not consistent with studies reporting that expenses retrenchment significantly increases the probability of financial turnaround, such as Balioukas et al. (2023); Tresnajaya et al., (2024); Wang & Bai (2024). In addition, (Flammer & Ioannou, 2021) provide a contrasting perspective by suggesting that aggressive cost-cutting can even weaken a firm's strategic capacity during crisis periods, which may harm post-crisis competitiveness. Overall, the results of this study are more consistent with Primawan et al. (2024) and Balioukas et al. (2023), who report that expenses retrenchment may not have a significant effect when it is poorly targeted, overly aggressive, or not supported by complementary recovery strategies.

4.7.2. Assets retrenchment does not have a significant effect on the probability of a company undergoing a financial turnaround

Asset's retrenchment is a corporate strategy implemented by reducing or divesting unproductive or underperforming assets (Gustina et al., 2024). The primary objective of this strategy is to halt further financial deterioration. When managed appropriately, asset's retrenchment may improve operational efficiency, reduce fixed cost burdens, and enable firms to refocus resources on profitable business units, thereby increasing the likelihood of financial turnaround (Wulandari & Fidiana, 2024). This argument aligns with the view that asset restructuring can serve as a corrective mechanism by eliminating inefficient asset allocations and strengthening the firm's operational core during distress (Yudiyanto & Manggarani, 2022).

However, the findings of this study indicate that asset's retrenchment does not have a statistically significant effect on the probability of financial turnaround. A plausible explanation is that, in firms characterised by negative equity, asset's retrenchment often functions more as a short-term liquidity response than as a recovery mechanism that improves the firm's long-term operating fundamentals (Yudiyanto & Manggarani, 2022). First, distressed firms frequently face weak asset liquidity and adverse market conditions, meaning that divestments may occur at discounted prices and generate proceeds that are insufficient to restore financial stability. Second, asset sales may reduce productive capacity if firms dispose of assets that still contribute to cash flow, operational continuity, or competitive advantage. This creates a trade-off where firms obtain temporary cash relief but weaken future revenue-generating capability, thereby limiting the contribution of asset's retrenchment to sustainable turnaround. Third, asset's retrenchment may not address the core drivers of distress, such as weak demand, declining competitiveness, or inefficient business models. In such circumstances, divestment merely delays financial deterioration rather than reversing it, which may explain the statistically insignificant relationship (Gustina et al., 2024).

This interpretation is consistent with the argument that retrenchment strategies become ineffective when management, including the CEO, fails to conduct adequate analysis in identifying which assets should be reduced and how divestment should be aligned with broader restructuring objectives (Primawan et al., 2024). Similarly, Gustina et al. (2024) emphasise that poorly targeted asset's retrenchment may worsen financial distress rather than alleviate it. This occurs when firms sell strategic assets at discounted values, dispose of cash-flow-generating assets, or use divestment proceeds primarily to cover recurring losses without addressing the underlying operational and strategic weaknesses (Gustina et al., 2024). Therefore, asset's retrenchment may not produce a measurable improvement in turnaround probability when it is implemented as an isolated action rather than as part of a comprehensive recovery programme.

The case of PT Sepatu Bata Tbk further illustrates this mechanism. The firm reportedly sold assets worth Rp64 billion to cover losses during 2022–2023. Despite this divestment, the firm continued to record a substantial loss of Rp190.3 billion in 2023. This case suggests that asset's retrenchment may provide only temporary liquidity support and may fail to generate recovery when the firm's core business fundamentals remain weak. It also indicates that strategic decisions prioritising asset sales over alternative approaches, such as operational restructuring or revenue recovery initiatives, may reflect limitations in managerial effectiveness during financial distress.

In terms of prior evidence, this study's findings differ from studies reporting a significant positive relationship between asset's retrenchment and financial turnaround, such as Wulandari & Fidiana (2024) and Yudiyanto & Manggarani (2022). In addition, Rico et al. (2021) and Rico & Puig (2021) document a significant negative relationship, suggesting that asset's retrenchment can reduce recovery prospects when divestment damages operational capacity. Overall, the results of this study are more consistent with Primawan et al. (2024), who report no significant effect of asset's retrenchment on financial turnaround, implying that divestment actions may fail to address core business problems when managerial analysis and execution are inadequate (Gustina et al., 2024; Tresnajaya et al., 2024).

4.7.3. Free assets have a significantly positive effect on the probability of a company undergoing a financial turnaround

Free assets refer to unencumbered assets that are not tied to specific obligations and can therefore be utilised flexibly to support corporate needs during critical conditions (Gustina et al., 2024). The availability of sufficient free assets constitutes a strategic factor in strengthening corporate financial resilience, as such assets may serve as an additional source of liquidity or as collateral to improve access to external financing (Primawan et al., 2024). In the context of financial distress, this flexibility becomes particularly important because firms frequently face restricted cash flow, declining creditworthiness, and limited ability to raise funds through conventional financing channels. Therefore, free assets are expected to operate as a key form of financial flexibility that enables firms to remain operational and avoid liquidation pressures during distress (Gustina et al., 2024; Primawan et al., 2024).

The findings of this study provide strong empirical support that free assets significantly increase the probability of financial turnaround. This result suggests that firms with higher levels of free assets are more capable of sustaining operational continuity and meeting urgent short-term obligations, thereby improving their likelihood of escaping financial distress. Substantively, free assets function as a financial buffer that allows firms to stabilise day-to-day operations while implementing recovery strategies. This is critical because turnaround typically requires time, managerial coordination, and additional funding to execute restructuring initiatives. Without adequate free assets, firms may face immediate liquidity shortfalls that force them into failure before recovery strategies can take effect. Consequently, free assets become not merely supportive, but enabling, as they determine whether distressed firms can maintain going-concern

operations long enough to pursue turnaround actions (Gustina et al., 2024; Primawan et al., 2024).

This mechanism is particularly relevant in the context of firms with negative equity. Negative equity reflects severe leverage conditions and limited financial flexibility. Under such circumstances, most firms are expected to have constrained free assets, which increases the strategic importance of any remaining unencumbered resources. The analysis indicates that firms that successfully achieve financial turnaround tend to allocate free assets towards sustaining core operations and meeting urgent liabilities. This suggests that free assets serve as a decisive resource in preventing operational collapse, while simultaneously enabling firms to restructure, renegotiate obligations, and restore stability. In other words, free assets distinguish firms that are able to recover from those that are unable to recover, because they provide the minimum financial capacity required to execute recovery actions (Gustina et al., 2024).

In terms of prior evidence, the findings of this study are consistent with (Chetta & Khomsiyah, 2022; Primawan et al., 2024), who report that free assets have a significant positive impact on financial turnaround. They argue that free assets provide financial flexibility, allowing firms to meet urgent liabilities and invest in recovery strategies, thereby increasing turnaround probability. However, this study does not support the findings of Novi et al. (2021), who report no significant effect and suggest that free assets may fail to contribute to recovery when they are not effectively utilised to finance turnaround initiatives. Overall, the results of this study strengthen the conclusion that free assets represent a central driver of financial turnaround, particularly among highly distressed firms with negative equity where cost-cutting and asset reduction strategies may be insufficient to generate sustainable recovery (Chetta & Khomsiyah, 2022; Gustina et al., 2024; Primawan et al., 2024).

5. CONCLUSION, PRACTICAL IMPLICATIONS AND FUTURE RESEARCH

This study examines the effects of expenses retrenchment, asset's retrenchment, and free assets on the probability of financial turnaround among Indonesian listed firms with negative equity. The panel logistic regression results indicate that only free assets have a statistically significant positive effect on financial turnaround. In contrast, expenses retrenchment and asset's retrenchment do not show significant effects. These findings suggest that financial flexibility, reflected in the availability of free assets, represents the most critical factor enabling firms in financial distress to achieve financial turnaround, particularly under severe leverage conditions.

Firms experiencing financial distress should prioritise maintaining and strengthening free assets to preserve liquidity, sustain operations, and meet urgent liabilities. In addition, expenses retrenchment and asset's retrenchment should be implemented selectively and based on comprehensive analysis, as excessive or poorly targeted retrenchment may not translate into an increased probability of financial turnaround.

This study focuses on financial variables and does not incorporate non-financial determinants of financial turnaround, such as CEO characteristics and managerial decision-making quality. Future research is therefore encouraged to integrate additional non-financial variables, particularly CEO characteristics, to provide a more comprehensive explanation of how turnaround strategies are designed and implemented. This extension is expected to improve understanding of the drivers of financial turnaround among firms experiencing financial distress.

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