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Abstract. The purpose of this study is to investigate how retrenchment practices affected the company's ability to recover financially from the Covid-19 pandemic in the years 2020–2022. The population in this study were all (41) hotel, restaurant and tourism sub-sector companies listed on the Indonesia Stock Exchange with a research sample of 27 companies. Logistic regression analysis was employed as the data analysis technique in this study. The return on assets change index is used to quantify the financial recovery. The assets retrenchment variable is measured using the assets retrenchment ratio formula and the expenses retrenchment variable is measured using the expenses retrenchment ratio formula. Meanwhile, the downscoping variable is measured using the Herfindahl index. The results of this study indicate that assets retrenchment and expenses retrenchment have no effect on financial recovery. Meanwhile, downscoping has an effect on financial recovery.

Keywords: Financial Recovery, Assets Retrenchment, Expenses Retrenchment, Downscoping.

INTRODUCTION

The increasing number of Covid-19 cases has caused most countries in the world to implement social control and restriction policies. This policy prohibits various activities carried out outside the home, resulting in many companies with low or no demand, and potentially mass bankruptcy of all companies. The decline in demand and the inability of people to consume products and services has caused many companies to experience financial downturns. One of the company sectors most affected by the COVID-19 crisis is hospitality, restaurant and tourism companies. The Large-Scale Social Restrictions and the Enforcement of Restrictions on Community Activities policies have caused people to be prohibited from doing activities outside the home, this has resulted in many companies, including the hotel, restaurant and tourism industry, having to operate with a limited capacity of 25%-50% or being prohibited from fully operating. This has caused the number of visitors from both overseas and domestic to decline significantly, which in turn has led to a decline in revenue and financial performance. The phenomenon of a decrease in the number of foreign tourists, the number of domestic trips, and the hotel occupancy rate has caused the revenue earned by the hotel, restaurant and tourism sub-sector companies to experience a significant decline. The level of tourist visits that has decreased will cause the level of visits to restaurants to also decrease (Besli et al., 2023). The Indonesian Hotel and Restaurant Association (PHRI)
through Hariyadi Sukamdani as chairman said that more than 8,000 restaurants and 2,000 hotels were closed owing to the outbreak of Covid-19, and this closure caused losses of 40 trillion Indonesian Ruppies for restaurant sector and 30 trillion Indonesian Ruppies for hospitality (CNN Indonesia, 2020).

One of the solutions that companies can use to improve their financial performance during the COVID-19 crisis is to implement a retrenchment policy. Retrenchment policies that include asset retrenchment, expenses retrenchment, and downscoping play a role in reversing the company's downturn because these policies encourage effective and efficient work by reducing less significant resources. Assets Retrenchment is an effort made by the company to optimize its performance to escape from bad conditions such as financial distress by reducing the number of assets owned by selling them so as to increase the company's cash flow. Expenses Retrenchment is an effort by the company to improve its performance by reducing the company's operating costs. While Downscoping is the release or elimination of businesses that are not related to the company's core business, through this effort the company can focus on the core business. According to studies by Yudiyanto & Manggarani (2022); Febrianti & Juliarto (2022); Raines et al. (2022) asset retrenchment has a favorable impact on the success of business turnaround. This is consistent with Sumarni & Ancella (2022) findings that expenses retrenchment improves the financial success of the business and is able to withstand more significant potential losses during the pandemic. But, Chetta & Khomsiyah (2022) stated different things, that assets retrenchment and expenses retrenchment negatively affect the success of corporate turnaround. Until now, there is only one study that discusses the effect of downscoping on company performance, namely Ishimitsu & Fujiwara (2014) stated that the downscoping strategy had no discernible impact on improving the performance of Japanese companies. Based on the results of prior studies, it can be said that there is currently little study on the impact of downscoping on business performance and that studies on asset and expense retrenchment continue to yield conflicting results. This research is a development of research Sumarni & Ancella (2022) which claims that the financial performance is positively impacted by the retrenchment plan, but the study only focuses on retrenchment expenses. Therefore, in this study, researchers are interested in examining the expenses retrenchment strategy along with other strategies that companies can use to survive the crisis due to the Covid-19 pandemic, these strategies include assets retrenchment and
downscoping. The results of this study can provide input for companies regarding the right decisions in responding to similar crises in the future.

LITERATURE REVIEW

Stakeholders Theory

Stakeholder theory is a theory that states that a company should not operate for its own benefit, but should provide benefits to its stakeholders, including shareholders, creditors, consumers, suppliers, and the government. As a result, a company's very existence depends on the support of its stakeholders (Ghozali & Chariri, 2007). The link between stakeholder theory and retrenchment policy is that companies are not only motivated by their own interests, but also want to benefit stakeholders. Stakeholders are considered by management while making business policies. In accordance with the purpose of stakeholder theory, which is to help companies provide benefits and minimize losses for stakeholders, the retrenchment policy can achieve this goal.

Assets Retrenchment

Assets retrenchment is a business's effort to enhance its financial performance by lowering the quantity of assets owned. Proper asset reduction will help the company increase cash so that it can help the company to improve performance in times of difficulty. Kusumaatmaja (2021) describes asset retrenchment as the activity of selling assets under the pretext of efficiency, the hope is that by reducing non-essential assets it can increase the productivity of the company. While Nastiti & Pangestuti (2016) describe asset retrenchment as an asset reduction action taken by a company to save itself from a situation of financial difficulty.

Expenses Retrenchment

Expenses retrenchment is a business's effort to improve its financial performance by reducing company expenses. Chetta & Khomsiyah (2022) defines expenses retrenchment as a company's action to increase efficiency, which means there is a reduction in the company's operating costs in order to maintain optimal performance. Tao et al. (2020) describes expenses retrenchment as the reduction of unnecessary costs in daily activities, such as travel costs, advertising costs, and labor costs.

Downscoping

Downscoping is business's attempt to improve its financial performance by divesting or selling business units. According to Setyadi et al. (2023) downscoping is the
disengagement, reduction, and elimination of businesses that are not related to the company's core business. Ishimitsu & Fujiwara (2014) described downscoping as a business strategy, where the company would exit less profitable businesses and concentrate its resources on other business segments.

Financial Recovery

Financial recovery is a condition where the company succeeds in improving its financial performance after experiencing a decline, where in the process of achieving financial recovery the company will involve various strategies to maximize company performance. Butar-Butar et al. (2019) explain that financial recovery is a prerequisite in which the business manages to get through financial challenges that nearly put the company out of business.

Hypothesis Development

The Effect of Assets Retrenchment on Financial Recovery

Assets retrenchment can be used as a strategy to improve company performance in the midst of a crisis. The form of asset retrenchment action is to reduce the number of assets owned by selling or releasing assets that are no longer productive, obsolete assets, assets that incur high maintenance costs, the hope is that after selling these assets it can increase the amount of cash flow entering the company and can maximize performance. In line with stakeholder theory, companies must pay attention to the interests of the stakeholders involved. If asset retrenchment is done correctly, It can enhance the business's financial results and and benefit stakeholders, especially investors and creditors. By selling assets, The business can become more profitable and increase the value of its dividends, besides that it can also increase the liquidity of the company and reduce the risk of default for creditors. This is supported by the opinion of Kusumaatmaja (2021) which states that the more assets sold, the greater the company's chances of succeeding in a turnaround. According to Febrianti & Juliarto (2022) the more ineffective assets are reduced, the more likely the company is to create added value and competitive advantage.

The research results of Francis & Desai (2005); Tikici et al. (2011); Nastiti & Pangestuti (2016); Nafi’ah (2017); Rico & Puig (2019); Yudiyanto & Manggarani (2022); and Febrianti & Juliarto (2022) prove that asset retrenchment boosts financial performance and helps companies undergo corporate turnarounds or financial recoveries. Compared to the findings of a study conducted by Pangestuti (2017); Suhfriahtiningsih
(2017); Jamal & Salisi (2021); and Kusumaatmaja (2021) discovered that asset retrenchment does not impact on company performance and corporate turnaround success, while the results of Chetta & Khomsiyah (2022) show that asset retrenchment hinders a company’s ability to generate a profit. Following this description, the following is the first hypothesis proposed by researchers in this study:

**H1: Assets retrenchment has a positive effect on financial recovery**

**The Effect of Expenses Retrenchment on Financial Recovery**

Expenses retrenchment is a step the business takes to reduce its expenses with the aim of improving performance efficiency and effectiveness. In line with stakeholder theory which explains that companies must consider the interests of stakeholders. Expenses retrenchment can be used as a form of company effort to fulfill the interests of these stakeholders, especially investors and creditors. Through expense reduction, expenses retrenchment can help companies to increase profitability. Increased profitability shows that the business can increase the prosperity of shareholders or investors through dividend distribution and can also fulfill payment obligations to creditors. Rico & Puig (2019) state that expenses retrenchment is quite effective in maintaining business continuity and restoring company performance, and it is said that companies that succeed in turnaround are companies that tend to take incentive expenses retrenchment actions. When entering a downturn many companies focus on reducing costs to reverse poor performance and try to maintain or achieve a certain level of profitability, as an example of this form of expense retrenchment includes reducing marketing costs, R&D costs, maintenance costs (Tikici et al., 2011).

The results of research by Francis & Desai (2005); Wandera et al. (2017); Rico & Puig (2019); Sumarni & Ancella (2022) expenses retrenchment has a favorable impact on financial performance and supports the success of financial recovery or corporate turnaround. Chetta & Khomsiyah (2022) state that expenses retrenchment has a negative effect on corporate turnaround. Meanwhile, Nafi’ah (2017) found that expenses retrenchment does not affect the success of corporate turnaround. Following this description, the following is the second hypothesis proposed by researchers in this study:

**H2: Expenses retrenchment has a positive effect on financial recovery**

**The Effect of Downscoping on Financial Recovery**

Downscoping is a business strategy to survive in times of crisis by disposing or selling business units so that companies can improve efficiency and focus on the main
business. By reducing or switching from less profitable businesses, companies can allocate resources to more potential business aspects to increase revenue and profits. In line with stakeholder theory where companies must pay attention to the interests of stakeholders. Downscoping can be used as a way to fulfill stakeholder interests. Through the downscoping strategy, the company can increase profitability. The increase in profitability reflects that the company is able to provide benefits to investors through dividend distribution and is also able to pay off its obligations to creditors. According to Helmalia (2016) downscoping has a positive impact in the short and long term on company performance when compared to downsizing which focuses on reducing labor. Based on the results of Ishimitsu & Fujiwara (2014) research, it is stated that the downscoping strategy has no significant effect on company performance. Following this description, the following is the third hypothesis proposed by researchers in this study:

H3: Downscoping has a positive effect on financial recovery.

RESEARCH METHODS
Population and Sample

The population of this study are all hospitality, restaurant and tourism sub-sector companies listed on the Indonesia Stock Exchange in 2020, 2021 and 2022, during the Covid-19 pandemic. The method used to determine the research sample is purposive sampling, where the company must meet the criteria to be used as a sample. For three years observation, 81 sample data points from 27 companies were acquired for research.

Financial Recovery

Based on research by Maryani (2023), corporate turnaround is used in this study as a proxy for the financial recovery variable. The ROA change index value is used to quantify corporate turnaround using dummy variables. The Return on Assets (ROA) ratio of the year under investigation is subtracted from the normal year ratio (2019), which is the value of the ROA change index. This is because in 2019 the company's financial situation was still normal because to the absence of the Covid-19 epidemic. The formula used to calculate financial recovery is as follows:

\[ I = ROA_t - ROA_{tn} \]

I : ROA change index
ROAt : ROA of the research year
ROAtn : ROA under normal conditions (year 2019)
If the value of the ROA change index is positive, the company has experienced financial recovery, while if the ROA change index is negative, the company can be said to have not experienced financial recovery. This information is then used to determine which companies have experienced financial recovery, namely by using a dummy variable, awarded a score of one if the business has experienced financial recovery, and given a score of 0 if the company has not experienced financial recovery (Maryani, 2023).

**Assets Retrenchment**

Measurement of assets retrenchment uses the formula from Francis & Desai (2005) research, namely by summing up the total assets of the current year and then deducting the total assets of the previous year and then dividing by the total assets of the previous year.

\[
AR = \frac{Total\ Assets\ For\ The\ Year - Total\ Assets\ Of\ The\ Previous\ Year}{Total\ Assets\ Of\ The\ Previous\ Year}
\]

**Expenses Retrenchment**

Measurement of expenses retrenchment uses the formula used by Francis & Desai (2005) research, namely by summing up the total expenses of the current year and then deducting the total expenses of the previous year and then dividing by the total expenses of the previous year.

\[
ER = \frac{Total\ Expenses\ For\ The\ Year - Total\ Expenses\ Of\ The\ Previous\ Year}{Total\ Expenses\ Of\ The\ Previous\ Year}
\]

**Downscoping**

Downscoping is one way for a company to increase its focus on the main business activities by reducing unnecessary diversification. The downscoping action of a company can be known by measuring the level of concentration of the company's business structure. The method by which the degree of concentration of the company's business structure is by using the Herfindahl Index (Ishimitsu & Fujiwara, 2014). If the Herfindahl Index is more than 0.5 or close to one, it indicates that the company's sales are sourced from one line of business or focused on a particular segment. If the Herfindahl Index value is below 0.5 or close to zero, it indicates that the company's sales come from various lines of business or are not concentrated in a particular segment. The use of this indicator is based on research conducted by (Berger & Ofek, 1995). Thus downscoping can be measured by the Herfindahl Index formula as follows:

\[ HI = \frac{\sum_{i=1}^{n} Segsales^2}{\sum_{i=1}^{n} Sales^2} \]

\( HI \): Herfindahl Index
\( Segsales \): Sales of each segment
\( Sales \): Total Sales

**Data Analysis Method**

In this research, the approach of data analysis used was logistic regression. Given that the study’s dependent variable is a dummy variable, which is non-metric and has multiple independent variables, logistic regression analysis was chosen. The following is the regression equation model used in the study:

\[ Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon \]

\( Y \): Financial Recovery
\( \alpha \): Constant
\( \beta_1, \beta_2, \beta_3 \): Regression coefficient
\( X_1 \): Assets Retrenchment
\( X_2 \): Expenses Retrenchment
\( X_3 \): Downscoping

**RESULTS AND DISCUSSION**

**Descriptive Statistics**

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Recovery</td>
<td>81</td>
<td>.00</td>
<td>1.00</td>
<td>.2469</td>
<td>.43390</td>
</tr>
<tr>
<td>Assets Retrenchment</td>
<td>81</td>
<td>-.46</td>
<td>4.35</td>
<td>.0702</td>
<td>.54792</td>
</tr>
<tr>
<td>Expenses Retrenchment</td>
<td>81</td>
<td>-.68</td>
<td>3.82</td>
<td>.0811</td>
<td>.63234</td>
</tr>
<tr>
<td>Downscoping</td>
<td>81</td>
<td>.00</td>
<td>1.00</td>
<td>.7020</td>
<td>.26001</td>
</tr>
<tr>
<td>Valid N</td>
<td>81</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Secondary Data hadled using SPSS 25, 2024

Assets Retrenchment has a minimum value of -0.46 owned by Bukit Uluwatu Villa Tbk (BUVA) in 2020, a maximum value of 4.35 owned by Esta Multi Usaha Tbk (ESTA) in 2020, an average value of 0.0702. The standard deviation value of 0.54792 indicates that Assets Retrenchment has a high data variation because the standard deviation value is greater than the average value. Expenses Retrenchment has a minimum
value of -0.68 owned by Bukit Uluwatu Villa Tbk (BUVA) in 2020, a maximum value of 3.82 owned by Esta Multi Usaha Tbk (ESTA) in 2021, an average value of 0.0811. The standard deviation value of 0.63234 is greater than the average value, indicating that Expenses Retrenchment has a high data variation. Downscoping has a minimum value of 0.00 owned by companies that do not do Downscoping and a maximum value of 1.00 owned by companies that do Downscoping. The average value is 0.7019. The standard deviation value of 0.26001 is smaller than the average value, indicating that Downscoping has a data variation that is not too high.

Logistic Regression Analysis

<table>
<thead>
<tr>
<th>Step</th>
<th>B</th>
<th>S.E.</th>
<th>Wald</th>
<th>Df</th>
<th>Sig.</th>
<th>Exp(B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st</td>
<td>Assets Retrenchment</td>
<td>.448</td>
<td>.437</td>
<td>1.052</td>
<td>1</td>
<td>.305</td>
</tr>
<tr>
<td></td>
<td>Expenses Retrenchment</td>
<td>.124</td>
<td>.440</td>
<td>.080</td>
<td>1</td>
<td>.777</td>
</tr>
<tr>
<td></td>
<td>Downscoping</td>
<td>2.844</td>
<td>1.168</td>
<td>5.929</td>
<td>1</td>
<td>.015</td>
</tr>
<tr>
<td></td>
<td>Constant</td>
<td>-3.285</td>
<td>.975</td>
<td>11.359</td>
<td>1</td>
<td>.001</td>
</tr>
</tbody>
</table>

Source: Secondary Data processed with SPSS 25, 2024

The equation for regression can be created as follows using the information in the preceding table:

\[ Y = -3.285 + 0.448X_1 + 0.124X_2 + 2.844X_3 \]

The constant of -3.285 indicates that financial recovery is -3.285 when downsizing, expense retrenchment, and asset retrenchment are all zero. This suggests that the hotel, restaurant, and tourism sub-sector businesses would either see a financial recovery of -3,288 or encounter financial troubles if there is no asset retrenchment, expenses retrenchment, or downscoping. The assets retrenchment regression coefficient of 0.448 indicates that if assets retrenchment increases by one unit, the company's chances of experiencing financial recovery will increase by 0.448 times with the assumption that other variables are considered constant. The expenses retrenchment regression coefficient of 0.124 indicates that if expenses retrenchment increases by one unit, the company's chances of experiencing financial recovery will increase by 0.124 times, assuming other variables are considered constant. The downscoping regression coefficient of 2.844 indicates that if downscoping increases by one unit, the company's chances of experiencing financial recovery will increase by 2.844 times, assuming other variables
are considered constant. This shows that when downscoping increases, the company's chances of experiencing financial recovery will increase.

**Hosmer and Lemeshow's Goodness of Fit Test**

<table>
<thead>
<tr>
<th>Step</th>
<th>Chi-Square</th>
<th>df</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>9.527</td>
<td>8</td>
<td>.300</td>
</tr>
</tbody>
</table>

Source: Secondary Data processed with SPSS 25, 2024

It can be inferred from the preceding table that the significance value is 0.300, which is higher than 0.05. This shows that the regression model is able to predict its observation value because it is in accordance with the observation data. Therefore, this model can be accepted and used for further analysis.

**Overall Model Fit Test**

**Table 4 Overall Model Fit Test Results**

| -2Log Likelihood awal (block number = 0) | 90.545 |
| -2Log Likelihood akhir (block number = 1) | 83.582 |

Source: Secondary Data processed with SPSS 25, 2024

Based on the table above, the initial -2Log Likelihood value (block number = 0) before entering the independent variables is 90.545. After the three independent variables are entered, the final -2Log Likelihood value (block number = 1) has decreased to 83.582. This decrease indicates that the hypothesized model is fit with the data.

**Determination Coefficient Test**

<table>
<thead>
<tr>
<th>Step</th>
<th>-2 Log likelihood</th>
<th>Cox &amp; Snell R Square</th>
<th>Nagelkerke R Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>83.582(a)</td>
<td>.082</td>
<td>.122</td>
</tr>
</tbody>
</table>

Source: Secondary Data processed with SPSS 25, 2024

Based on the table above, the coefficient of determination is 0.122 or 12.2%. This indicates that all three independent variables, asset retrenchment, expense retrenchment, and downscoping, have a 12.2% capacity to explain and impact the dependent variable, financial recovery. The remaining 87.8% are explained and influenced by independent variables not included in this research model.

**Omnibus Test of Model Coefficients**

**Table 6 Omnibus Test of Model Coefficient Results**
The preceding table's significant value of 0.073, which is higher than the significance level of 0.05, suggests that asset retrenchment, expenses retrenchment, and downscoping do not all affect financial recovery at the same time.

Hypothesis Test

Partial Model Significance Test (Wald Test)

<table>
<thead>
<tr>
<th>Step 1*</th>
<th>Hypothesis</th>
<th>Assets Retrenchment</th>
<th>S.E.</th>
<th>Wald</th>
<th>Df</th>
<th>Sig.</th>
<th>H1 Not Supported</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>.438</td>
<td>.437</td>
<td>1.052</td>
<td>1</td>
<td>.305</td>
<td></td>
</tr>
<tr>
<td>Expenses Retrenchment</td>
<td>H2 Not Supported</td>
<td>.124</td>
<td>.440</td>
<td>.080</td>
<td>1</td>
<td>.777</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2.844</td>
<td>1.168</td>
<td>5.929</td>
<td>1</td>
<td>.015*</td>
<td>H3 Supported</td>
</tr>
<tr>
<td>Constant</td>
<td></td>
<td>-3.285</td>
<td>.975</td>
<td>11.359</td>
<td>1</td>
<td>.001</td>
<td></td>
</tr>
</tbody>
</table>

*Significant at P-Value < 0.05

The Wald test findings indicate that the significance value of assets retrenchment is more than the significance level (0.305 > 0.05) so it can be concluded that the first hypothesis (H1) which states that assets retrenchment has a positive effect on financial recovery is not supported. Expenses retrenchment has a significance value higher than the significance level (0.777 > 0.05) so it can be concluded that the second hypothesis (H2) which states that expenses retrenchment has a positive effect on financial recovery is unsupported. The value of significance downscoping is smaller than the level of significance (0.015 <0.05) so it can be concluded that the second hypothesis which states that downscoping has a positive effect on financial recovery is supported.

Discussion

The Effect of Assets Retrenchment on Financial Recovery

The test results show that the significance level of asset retrenchment is 0.305, a value greater than 0.05, so the first hypothesis (H1) in this study is not supported, so asset retrenchment has no effect on financial recovery. Based on the researchers' analysis of
the information in the Notes to the Financial Statements (CALK), no confirmation was found regarding the reasons for asset reduction or asset sales and no confirmation was found that the company carried out an asset retrenchment policy. The reason why asset retrenchment has no effect on financial recovery is because the decrease in return on assets is greater compared to the decline in assets. The decline in the company's revenue is what's causing the decline in return on assets. Buying and selling activities are the main activities in the economy. When the Covid-19 pandemic occurs, people's mobility is limited, which causes people's purchasing power to decrease. When people's purchasing power decreases, the revenue earned by the company will decrease (Agatha et al., 2023). Declining revenue due to low purchasing power will have a negative impact on the company's financial performance, one of the impacts is the value of current assets (Devi et al., 2020). A decrease in revenue will affect current asset components such as cash and accounts receivable, this is because the value of cash is obtained from cash sales activities and the value of accounts receivable is obtained from credit sales activities (Agatha et al., 2023). Thus, this is what makes asset retrenchment have no effect on financial recovery. These findings support the results of Kusumaatmaja (2021) research which states that asset retrenchment is irrelevant if used by companies that are experiencing losses or are close to bankruptcy, because it will have a negative impact on improving performance and under certain conditions it would be better to maintain assets than to sell them. The study’s findings support the investigation of Pangestuti (2017); Suhfriatiningsih (2017); Jamal & Salisi (2021); Kusumaatmaja (2021) which states that asset retrenchment has no effect on company performance and corporate turnaround success. Nevertheless, the findings of this investigation do not agree with those of Sumarni & Ancella (2022) research which states that the retrenchment strategy has a favorable impact on the financial success of the business.

The Effect of Expenses Retrenchment on Financial Recovery

Based on the test results, the second hypothesis (H2) in this study is not supported, indicating that expenses retrenchment has no effect on financial recovery. The test results reveal that the significance level of expenses retrenchment is 0.777, this value is greater than 0.05. Based on the researchers' analysis of the information in the Notes to the Financial Statements (CALK), there are 47 samples of company data that carry out cost efficiency and from all samples there is no confirmation that the company carries out the expenses retrenchment policy. The reason expenses retrenchment has no effect on
financial recovery is due to a decrease in return on assets that is greater than the decrease in expenses. The decrease in expenses is due to the decline in sales due to the Covid-19 pandemic which limits economic activity. When sales decrease, the company's expenses in the form of variable expenses such as raw material costs and production costs that are directly related to sales volume will also decrease. The decline in the level of sales causes a decrease in revenue earned by the company, but in these conditions there are fixed operating costs that must be incurred so that this is what makes the company's return on assets still decrease despite a decrease in expenses (Agatha et al., 2023). Thus, this is what makes expenses retrenchment possess no impact on financial recovery. The findings of this study confirm Nafi’ah (2017) research which states that expenses retrenchment has not affecting the corporate turnaround’s performance. Nevertheless, this study’s findings contradict those of Sumarni & Ancella (2022) research which states that retrenchment strategies improve the financial performance of the business.

The Effect of Downscoping on Financial Recovery

Based on the test results, the third hypothesis (H3) in this study is supported, indicating that downscoping has a beneficial impact on financial recovery. The significance level of downscoping is 0.015, a value that is smaller than 0.05. The results of this study confirm stakeholder theory that downscoping can be an effective alternative to improve financial recovery, so as to provide benefits and minimize losses for stakeholders. Downscoping can help companies to increase their focus on the main business activities to generate maximum profits. This can be done by reducing unnecessary diversification, so that the company can focus more on its main business and become more efficient in using resources so as to increase its competitiveness. By having good competitiveness, the company can maintain its survival, which means that the company is able to compete in the market and generate stable profits. Therefore, through a downscoping strategy the company can increase its profitability. Based on the researchers' analysis of the information in the Notes to the Financial Statements (CALK), no statement was found that the company reduced or disposed of business units or subsidiaries. However, based on the data from the calculation of the Herfindahl Index to measure Downscoping, it is found that as many as 62 samples of company data have a Herfindahl index value above 0.5 or close to 1, this indicates that many companies whose sales focus on one particular business line or segment. While the remaining 19 samples of company data show that the company's sales come from various lines of business or
are not concentrated in certain segments. Thus, this is what makes Downscoping have a positive effect on Financial Recovery, because focusing on one line of business or a particular segment can increase the company’s focus on its main business activities to generate maximum profitability so as to enable the company to experience financial recovery. The study’s findings support Sumarni & Ancella (2022) research which states that the retrenchment strategy positively impacts the financial success of the business. However, this study’s findings conflict with those of Ishimitsu & Fujiwara, 2014) which states that downscoping has no effect on company performance.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The results showed that the assets retrenchment variable had no effect on financial recovery. Therefore, the results of this study do not support the first hypothesis which says that assets retrenchment have a positive effect on financial recovery. In addition, the expenses retrenchment variable has no effect on financial recovery. This means that the second hypothesis which states cost reduction favorably impacts the process of financial recovery is unsupported. However, it is evident that the downscoping variable has an effect on financial recovery. the study’s findings support the third hypothesis that downscoping has a positive effect on financial recovery.

Recommendations

To gain a deeper understanding of the issues studied, future research should use a qualitative approach with a case study approach. It is also recommended to expand the scope of the research to include other industries that are also affected by the COVID-19 pandemic, such as the manufacturing, transportation, and construction industries. In addition, further research is recommended to add other variables that are more relevant and potentially affect the financial recovery process. In addition, because the measurements used in this study are still not able to specifically capture the effect of asset decline, cost decline, and decline. Therefore, the variable measurement tools should also be updated.

REFERENCES


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