ANALYSIS OF THE INFLUENCE OF SEVERITY, FIRM SIZE, FREE ASSET, AND ASSET RETRENCHMENT ON CORPORATE TURNAROUND IN THE PROPERTY & REAL ESTATE SECTOR LISTED ON THE INDONESIA STOCK EXCHANGE FOR THE PERIOD 2020-2024

Adhi Wicaksono[1]
Universitas Pakuan, Bogor, Indonesia
penelitian.adhi@gmail.com

Hari Gursida[2]
Universitas Pakuan, Bogor, Indonesia
hg.gursida@unpak.ac.id

Yohanes Indrayono[3]
Universitas Pakuan, Bogor, Indonesia
indrayonoyohanes@yahoo.com

Abstract

This study aims to analyze the effect of severity, firm size, free assets, and asset retrenchment on the success of corporate turnaround in Indonesian property and real estate companies experiencing negative return on assets (ROA). The study uses a quantitative approach with binary logistic regression on 21 companies selected through purposive sampling in the 2020–2024 period. Corporate turnaround is identified based on the company's ability to continuously emerge from negative ROA conditions. The test results show that severity has a negative effect on the probability of corporate turnaround success, although it is not statistically significant. Meanwhile, firm size, free assets, and asset retrenchment also had no significant effect on the success of performance recovery. These findings indicate that conventional financial indicators and ratios are not yet able to adequately explain the dynamics of corporate turnaround in the property and real estate sector, which is asset-intensive, illiquid, and highly influenced by economic cycles. This study confirms the gap between the theoretical framework based on financial indicators and the empirical reality of the property sector, and emphasizes the importance of a multidimensional approach that incorporates non-financial factors in the analysis of corporate turnaround.

Keywords: Asset Retrenchment, Corporate Turnaround, Firm Size, Free Assets, Severity

INTRODUCTION

Global economic instability over the past decade, triggered by economic slowdowns, financial crises, and the COVID-19 pandemic, has worsened the financial conditions of many companies across various industrial sectors. One of the most affected sectors is Properties & Real Estate, given the industry's capital-intensive, long-term nature, and high dependence on external financing and financial market stability (Ohlson, 1980; Altman, 2018). When an economic contraction occurs, companies in this sector tend to experience a decline in demand, cash flow pressure, and an increase in the risk of financial distress, leading to business failure.

Corporate turnaround is a crucial strategy for companies to recover financial performance and maintain business continuity. Corporate turnaround is defined as a series of strategic and operational actions taken by a company after experiencing a significant decline in performance to restore financial conditions to a sustainable level (Bibeault, 1999). Strategic management literature emphasizes that turnaround success is not a universal process, but rather highly dependent on a combination of the company's internal conditions, the level of external pressure, and the strategic decisions made by management (Trahms et al., 2013).

One internal factor consistently associated with successful corporate turnaround is severity, which refers to the severity of the financial difficulties experienced by the company. The higher the level of severity, the more limited the company's financial flexibility in responding to the crisis, thus decreasing the likelihood of recovery (Hambrick & Schecter, 1983). However, empirical findings regarding the influence of severity on turnaround success are inconsistent. Some studies have found that severity negatively affects turnaround, while others have shown that high levels of pressure can actually drive management to make more radical and effective strategic changes (Bruton et al., 2003). This inconsistency indicates that the relationship between severity and corporate turnaround is still contextual and not fully explained.

Beside severity, firm size is also an important determinant in the company's recovery process. Large companies generally have broader resources, a stronger reputation, and better access to capital markets and financial institutions (Beaver, 2005). This condition theoretically increases the probability of a successful turnaround. However, on the other hand, large companies often face bureaucratic problems, structural rigidity, and organizational complexity that can slow down the strategic decision-making process. Previous research findings have shown differing results regarding the role of firm size, with some studies finding a positive influence, while others have found it to be insignificant or even negative on turnaround success (Pearce & Robbins, 2008). This difference in results highlights the existence of a research gap concerning the role of firm size in the context of performance recovery.

Furthermore, corporate turnaround literature emphasizes the importance of free assets as a source of strategic flexibility for financially distressed companies. Free assets refer to company assets that are unencumbered and can be used relatively freely to support financial restructuring, obtain new funding, or adjust asset structures (Shleifer & Vishny, 1992). The existence of free assets provides room for management to make strategic maneuvers without excessive contractual pressure from creditors. Although conceptually free assets are seen as

a key factor in turnaround success, empirical evidence specifically testing the role of free assets is still relatively limited, especially in the Properties & Real Estate sector, which has a unique and high-value asset structure.

In an effort to overcome financial distress, companies also often implement an asset retrenchment strategy, which involves reducing or disposing of assets to improve liquidity and operational efficiency. This strategy is seen as one of the common defensive actions in the early stages of a turnaround (Bibeault, 1999). However, the effectiveness of asset retrenchment remains a subject of debate in the literature. Some studies suggest that asset retrenchment can improve cash flow and accelerate company recovery, while other studies find that selling assets risks lowering company value and is perceived as a fire sale that actually worsens long-term conditions (Shleifer & Vishny, 1992; Pearce & Robbins, 2008). This difference in perspective indicates that the impact of asset retrenchment on corporate turnaround is not yet conclusive.

Based on the description, it can be concluded that there is still a research gap regarding the influence of severity, firm size, free assets, and asset retrenchment on the success of corporate turnaround, particularly in the Properties & Real Estate sector amidst an economic crisis. The inconsistency of empirical findings and the limitations of research focusing on specific sector contexts and crisis periods are important reasons for conducting this study.

REVIEW OF LITERATURE

Corporate Turnaround

Corporate turnaround refers to the process of restoring a company's performance after experiencing a significant decline due to internal or external pressures. Bibeault (1999) defines corporate turnaround as a series of strategic actions aimed at stopping declining performance and returning a company to a sustainable financial condition. This definition emphasizes that a turnaround is not merely a survival effort, but a comprehensive strategic transformation.

Whitaker (1999) emphasizes that corporate turnaround should be measured by fundamental improvements in profitability and liquidity, not just short-term operational sustainability. Smith and Graves (2005) reinforce this view by stating that successful turnarounds reflect sustained structural changes in company performance. Thus, corporate turnaround is a complex and multidimensional strategic outcome.

Ndofor et al. (2013) showed that corporate turnaround is contextual and cannot be understood thru a single universal approach. Its success is heavily influenced by the company's initial conditions, the rate of performance decline, and the combination of strategies implemented. This indicates the need for analysis that considers the characteristics of specific industrial sectors and business environments.

Severity of Financial Distress

The severity of financial distress describes the severity of financial pressure experienced by the company before and during the recovery process. Hambrick and Schecter (1983) stated that the higher the severity of the crisis, the narrower the strategic space a company has to respond to declining performance. This condition limits managerial flexibility and increases the risk of turnaround failure. Whitaker (1999) found that companies

entering a high-severity distress phase are likely to experience structural damage to profitability and liquidity. Smith and Graves (2005) showed that severity is a key differentiating factor between companies that successfully and unsuccessfully turn around. Francis and Desai (2005) add that severe and urgent performance decline accelerates the depletion of strategic resources. However, Bruton et al. (2003) argue that extreme crisis pressure can drive management to make more decisive strategic changes. Ndofor et al. (2013) even found that severity does not always directly affect turnaround success, but rather serves as a constraint on the effectiveness of the strategy. The inconsistency of these findings suggests an empirical gap regarding the role of severity, particularly in asset-intensive sectors such as property and real estate.

Firm Size

Firm size represents the scale of operations and resource capacity of the company. Beaver (2005) states that large companies have wider access to funding and a stronger reputation, potentially increasing the chances of a corporate turnaround. Denis and Denis (1995) showed that firm size influences the dynamics of post-restructuring performance change. Barker and Duhaime (1997) assert that firm size shapes the effectiveness of strategic change during the turnaround process. Daily and Dalton (1994) found that large companies have a higher likelihood of reorganization, despite the increased complexity of their governance. This finding suggests that firm size can serve as a source of structural power. Conversely, Pearce and Robbins (2008) emphasize that large companies face organizational rigidities that can slow down recovery. Rico and Puig (2019) found that firm size does not have a significant direct impact on turnaround success, but rather plays a contextual role. This inconsistency in results indicates that the relationship between firm size and corporate turnaround is still inconclusive, particularly in the Properties & Real Estate sector in developing countries.

Free Asset

Free assets refer to company assets that are not pledged as collateral and can be used flexibly. White (1984) showed that free assets differentiate between companies that are successfully reorganized and those that end in liquidation. Smith and Graves (2005) found that companies with high free assets have a greater chance of turnaround because they are able to finance the recovery process internally. Norman et al. (2013) assert that financial slack serves as a buffer, enabling companies to adapt during periods of distress. Nugroho (2018) showed that free assets have a significant positive effect on the probability of financial turnaround in public companies in Indonesia. This finding underscores the importance of asset flexibility in the context of emerging markets. Nevertheless, free assets are still relatively rarely positioned as a primary determinant of corporate turnaround. Most studies treat it as a supporting or control variable. Additionally, research specifically examining the role of free assets in the property and real estate sector is still limited, creating a relevant research gap.

Asset Retrenchment

Asset retrenchment is an asset reduction strategy to stop declining performance. Robbins and Pearce (1992) stated that retrenchment is an initial response necessary in the turnaround process. Morrow et al. (2004) showed that asset retrenchment is effective in improving short-term financial conditions. Schmitt and Raisch (2013) emphasize the duality of retrenchment strategies. Asset streamlining is necessary for stabilization, but it can hinder

long-term recovery if done excessively. Tao et al. (2020) showed that the effectiveness of asset retrenchment is configurational and depends on alignment with other strategies. In the property and real estate sector, asset retrenchment faces limitations due to the low liquidity of assets and the lengthy divestment process. Therefore, the effectiveness of this strategy in supporting corporate turnaround still requires more specific and contextual empirical evidence.

RESEARCH METHOD

Types and Research Approaches

This research uses a quantitative approach with an explanatory research design. The explanatory approach was chosen because this study aims to examine the causal relationship between the independent variables, namely severity, firm size, free assets, and asset retrenchment, and the dependent variable, corporate turnaround. Explanatory research allows researchers to explain the mechanisms of influence between variables based on a formulated theoretical framework and hypotheses (Sekaran & Bougie, 2016). A quantitative approach was used because all research variables could be objectively measured thru financial indicators sourced from the company's financial statements. According to Hair et al. (2019), the quantitative approach is highly suitable for research aimed at testing hypotheses and generating generalizable empirical evidence, particularly in financial and corporate strategy research.

Population and Sample

The population in this study consists of all property and real estate companies listed on the Indonesia Stock Exchange (IDX) during the observation period of 2020–2024. The property and real estate sector was chosen because it is asset-intensive and has a high level of exposure to changes in macroeconomic conditions, making it relevant for study in the context of corporate turnaround.

The sample was determined using purposive sampling, which is a sampling technique based on specific criteria that align with the research objectives. Sekaran and Bougie (2016) state that purposive sampling is appropriate to use when researchers want to obtain a sample that has specific characteristics and is relevant to the phenomenon being studied. Cooper and Schindler (2014) assert that this technique is commonly used in explanatory research focused on testing causal relationships.

The main criterion for sample selection is companies that experienced negative return on assets (ROA) during the observation period. ROA is used as an initial indicator because this ratio reflects a company's ability to generate profit from the total assets managed. Whitaker (1999) states that a decline in asset profitability is an early warning sign of performance pressure that could potentially lead to financial distress.

Based on these criteria, 21 companies were selected as the research sample and were subsequently classified into two groups. The first group consisted of companies that consistently experienced negative ROA and failed to recover their performance, thus categorized as companies that failed to achieve a corporate turnaround. The second group comprised companies that temporarily experienced negative ROA but successfully restored profitability, thus categorized as companies that successfully achieved a corporate turnaround. This classification approach aligns with the research by Ndofor et al. (2013),

who distinguished turnaround success based on performance changes after a period of distress.

Types and Sources of Data

The type of data used in this study is quantitative data, which is data expressed in numerical form and can be analyzed statistically. Quantitative data was chosen because the research variables could be clearly operationalized thru financial ratios. Hair et al. (2019) state that quantitative data allows for the systematic and objective testing of causal relationships.

The data used is secondary data, which is data obtained indirectly from available sources. Secondary data was chosen because it provides consistent and audited financial information, thus increasing the reliability of the analysis. Data was obtained from the company's annual financial reports published thru the official website of the Indonesia Stock Exchange during the period 2020–2024.

Operational Definitions and Variable Measurement

Operationalization of variables is the process of defining conceptual variables into empirically measurable indicators. This section explains the operational definitions and measurement for each variable used in the study, including both dependent and independent variables.

Tabel 1.
Operational Definitions and Variable Measurement

Variabel	Concept Definition	Indicators / Measurements	Scale
Corporate Turnaround (Y)	The process of restoring a company's performance from a state of decline (distress) toward sustainable profitability	Using dummy variables: Number 1: If the company successfully turns around (positive net profit after experiencing losses). Number 0: If the company fails to turn around	Binary
Severity (X1)	The severity of the financial difficulties experienced by the company before bankruptcy	Using the Altman Z"-Score (1995): Z"=6.56X1+3.26X2+6.72X3+1.05X4 Where: X1 = (Current Assets - Current Liabilities) / Total Assets X2 = Retained Earnings / Total Assets X3 = EBIT / Total Assets X4 = Book Value of Equity / Total Liabilities	Ratio
Firm Size (X2)	The scale of the company, reflecting its wealth and resource availability	Using the Natural Logarithm of Total Assets: Size = Ln(TotalAssets)	Ratio
Free Asset (X3)	Unencumbered assets that provide financial flexibility	Net asset ratio to total assets: FreeAsset = TotalAssets / (TotalAssets - TotalLiabilities)	Ratio

Variabel	Concept Definition	Indicators / Measurements	Scale
Asset Retrenchment (X4)	Strategic asset reduction actions for efficiency and cash generation	Percentage change in total assets: Retrenchment = (TotalAssets_t - TotalAssets_t-1) / TotalAssets_t-1	Ratio

Data Analysis Techniques

The data analysis techniques used in this study include descriptive statistics and binary logistic regression. Descriptive statistics are used to describe the characteristics of the research data, such as mean, maximum, minimum, and standard deviation. Hair et al. (2019) state that descriptive statistics are important for understanding data distribution before inferential analysis is performed.

Binary logistic regression was used to test the research hypothesis because the dependent variable, corporate turnaround, is dichotomous. Hosmer et al. (2013) state that logistic regression is appropriate when the dependent variable is categorical and the goal of the analysis is to estimate the probability of a specific event occurring. This method is widely used in corporate turnaround research because it can predict the likelihood of recovery success based on company characteristics (Ndofor et al., 2013).

The model's goodness-of-fit was evaluated using the Hosmer-Lemeshow test and the Likelihood Ratio test. Parameter significance testing was performed using z-statistics and probability values at a 5 percent significance level. All analyzes were conducted to ensure that the model used had adequate explanatory power and predictive capability.

RESULTS AND DISCUSSION

Hypothesis Testing

Hypothesis testing in this study was conducted to empirically examine the influence of severity, firm size, free assets, and asset retrenchment on the probability of successful corporate turnaround in property and real estate sector companies in Indonesia. Given that the dependent variable, corporate turnaround, is dichotomous, hypothesis testing was conducted using binary logistic regression with the maximum likelihood estimation approach.

Methodologically, hypothesis testing is carried out in three interconnected and inseparable stages. The first stage is the feasibility test of the logistic regression model, which aims to ensure that the built model fits the empirical data and does not have a lack of fit problem. The second stage is the model's classification and prediction capability test, which examines the extent to which the model can distinguish between successful and failed companies undergoing corporate turnaround. The third stage is Parameter Estimation and Hypothesis Testing (Logistic Regression Results), which is used to test the research hypotheses both simultaneously and partially. These three stages form a complete analytical unit, where the significance test can only be validly interpreted if the model is first declared statistically fit.

1. Goodness-of-Fit Evaluation of the Logistic Regression Model

The goodness-of-fit test for the logistic regression model was conducted to determine whether the estimated model adequately represents the relationship between the independent and dependent variables. In this study, the model's goodness-of-fit was tested using the Hosmer–Lemeshow Test and the Andrews Statistic, as recommended in the logistic regression literature for binary data.

Conceptually, the Hosmer–Lemeshow test examines the null hypothesis that there is no significant difference between the actual frequencies of the dependent variable and the frequencies predicted by the model across several probability groups. According to Hosmer, Lemeshow, and Sturdivant (2013), a logistic regression model is considered a good fit when the Chi-Square probability value in the Hosmer–Lemeshow test is greater than the established significance level, generally 5 percent. Conversely, a probability value less than 0.05 indicates a lack of fit between the model and the data.

Tabel 2.
Goodness-of-Fit Evaluation

	Quantile of Risk			Dep=0		Dep=1	Total	H-L
	Low	High	Actual	Expect	Actual	Expect	Obs	Value
1	0.2790	0.4009	2	132.007	0	0.67993	2	103.015
2	0.4012	0.4143	1	118.451	1	0.81549	2	0.07049
3	0.4155	0.4163	0	116.823	2	0.83177	2	280.900
4	0.4234	0.4483	1	112.834	1	0.87166	2	0.03350
5	0.4536	0.4610	1	108.543	1	0.91457	2	0.01470
6	0.4829	0.4936	1	102.350	1	0.97650	2	0.00111
7	0.4947	0.4971	1	100.821	1	0.99179	2	0.00013
8	0.5077	0.5105	2	0.98185	0	101.815	2	207.393
9	0.5245	0.5299	0	0.94560	2	105.440	2	179.362
10	0.5324	0.7167	2	115.426	1	184.574	3	100.722
		Total	11	110.000	10	100.000	21	883.384
H-L Statistic			88.338		Prob. Chi-Sq(8)		0.3565	
Andrews Statistic			137.476		Prob. Chi-Sq(10)		0.1848	

Based on the test output, the Hosmer-Lemeshow statistic value is 88.338 with a Prob. Chi-Square (8) of 0.3565, which is above the significance level of 0.05. Referring to Hosmer and Lemeshow (2013), these results indicate that the null hypothesis cannot be rejected, thus the logistic regression model is considered consistent with the empirical data.

These results are consistent with the Andrews test, which yielded an Andrews Statistic value of 137.476 with a Prob. Chi-Square (10) of 0.1848. A probability value greater than 0.05 indicates that there is no significant difference between the actual and predicted values of the model (Andrews, 1988; Hosmer et al., 2013).

The consistency of the results from both tests indicates that the logistic regression model does not have any goodness-of-fit issues and meets the goodness-of-fit criteria. Thus, the model is declared feasible and valid for use in hypothesis testing at the subsequent analysis stage.

2. Model Classification and Prediction Test (Expectation–Prediction Test)

The classification and prediction tests in this study aim to assess the alignment between the company's empirical conditions (Das Sein) and the prediction results of the logistic regression model (Das Sollen). Das Sein is determined based on the company's historical performance over five years, where companies experiencing consecutive negative ROA are classified as failing to achieve a corporate turnaround (value 0), while companies experiencing only one instance of negative ROA and able to recover their performance are classified as successful (value 1). This longitudinal approach aligns with Whitaker (1999) and Ndofor et al. (2013), who emphasize that corporate turnaround is a dynamic phenomenon.

Meanwhile, the "Sollen" represents the probabilistic prediction generated by the logistic regression model based on the severity, firm size, free assets, and asset retrenchment variables. The probability value of corporate turnaround success ($\hat{Y}$) was then converted into a binary classification using a cutoff of 0.5. Hosmer, Lemeshow, and Sturdivant (2013) state that using a probability threshold of 0.5 is standard practice in logistic regression when the costs of misclassification are considered symmetrical.

Tabel 3.
Expectation–Prediction Test

	Estimated Equation			Constant Probability		
	Dep=0	Dep=1	Total	Dep=0	Dep=1	Total
P(Dep=1)<=C	7	7	14	11	10	21
P(Dep=1)>C	4	3	7	0	0	0
Total	11	10	21	11	10	21
Correct	7	3	10	11	0	11
% Correct	63.64	30.00	47.62	100.00	0.00	52.38
% Incorrect	36.36	70.00	52.38	0.00	100.00	47.62
Total Gain*	-36.36	30.00	-4.76			
Percent Gain**	NA	30.00	-10.00			
	Estimated Equation			Constant Probability		
	Dep=0	Dep=1	Total	Dep=0	Dep=1	Total
E(# of Dep=0)	5.90	5.10	11.00	5.76	5.24	11.00
E(# of Dep=1)	5.10	4.90	10.00	5.24	4.76	10.00
Total	11.00	10.00	21.00	11.00	10.00	21.00
Correct	5.90	4.90	10.81	5.76	4.76	10.52
% Correct	53.67	49.04	51.47	52.38	47.62	50.11
% Incorrect	46.33	50.96	48.53	47.62	52.38	49.89
Total Gain*	1.29	1.42	1.35			
Percent Gain**	2.71	2.71	2.71			

The test results show a clear empirical discrepancy between Das Sein and Das Sollen. Out of 21 companies, the model classified 14 companies into the low probability group and 7 companies into the high probability group. However, within the low probability group, only seven companies empirically failed to achieve a corporate turnaround, while the other seven actually recovered. This condition indicates a high false negative rate, where actual successes are not detected by the model. Conversely, in the high-probability group, only three companies were truly successful, while the other four companies remained empirically unsuccessful. This reflects the occurrence of false positive classification, which is when financial signals that are normatively assumed to indicate opportunities for success do not

materialize in practice. Hair et al. (2019) state that this phenomenon is common in purely financial indicator-based models used to explain complex strategic phenomena.

Overall, the model was only able to correctly classify 10 out of 21 companies, with an accuracy rate of 47.62 percent, which is lower than the constant probability of 52.38 percent. This condition is reflected in the negative total gain and percent gain values, which indicates that the model does not improve classification ability compared to the baseline approach. Hosmer et al. (2013) emphasize that accuracy not exceeding constant probability indicates limitations in the model's predictive power, even tho the model structure remains viable.

The probabilistic expectation approach shows that the model is able to replicate the class distribution in aggregate, but fails to identify individual observational units. Long and Freese (2014) emphasize that aggregate fit is not identical to individual classification accuracy. This finding aligns with Ndofor et al. (2013) and Schmitt and Raisch (2013), who state that financial indicators are lagging and do not fully capture the strategic dynamics and managerial processes that determine corporate turnaround success. Thus, the gap between Das Sein and Das Sollen reflects the empirical complexity of the corporate turnaround phenomenon, not merely a technical weakness of the model.

3. Parameter Estimation and Hypothesis Testing

Hypothesis testing at this stage is conducted thru the estimation of binary logistic regression parameters using the maximum likelihood method with the Newton-Raphson and Marquardt algorithms. The main objective of this stage is to partially test the influence of each independent variable, namely severity (X1), firm size (X2), free assets (X3), and asset retrenchment (X4), on the probability of corporate turnaround success. Statistical decision-making is based on the values of the regression coefficient, the z-statistic, and the probability (Prob.) value, with a significance level (alpha) of 0.05. According to Hosmer and Lemeshow (2013), a variable in a logistic regression model is considered to have a significant effect if the probability value of the Wald test is less than the established significance level, while a probability value greater than 0.05 indicates that the effect of the variable is not statistically significant.

Theoretically (Das Sollen), severity is seen as an important determinant in the corporate turnaround process. Within the framework of Stakeholder Theory, a high level of financial pressure should increase pressure from creditors, investors, and other stakeholders, thus pushing management to take more decisive and targeted recovery actions. This view is supported by research by Whitaker (1999), Barker and Duhaime (1997), and Pearce and Robbins (1993), which shows that the severity of financial distress significantly affects the success or failure of a company's recovery process.

Tabel 4.
Parameter Estimation and Hypothesis Testing

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	-1.991.879	6.753.117	-0.294957	0.7680
X1	-0.036510	0.117874	-0.309740	0.7568
X2	0.067296	0.235093	0.286251	0.7747
X3	0.027207	0.139623	0.194858	0.8455
X4	1.886.093	4.509.861	0.418215	0.6758
McFadden R-squared	0.021093	Mean dependent var		0.476190
S.D. dependent var	0.511766	S.E. of regression		0.564772
Akaike info criterion	1.831.024	Sum squared resid		5.103.486
Schwarz criterion	2.079.719	Log likelihood		-1.422.575
Hannan-Quinn criter.	1.884.997	Deviance		2.845.149
Restr. deviance	2.906.454	Restr. log likelihood		-1.453.227
LR statistic	0.613050	Avg. log likelihood		-0.677417
Prob(LR statistic)	0.961603			
Obs with Dep=0	11	Total obs		21
Obs with Dep=1	10			

The empirical estimation results (Das Sein) show that severity has a negative coefficient of -0.036510 with a probability value of 0.7568, which is far above the significance level of 0.05. This finding indicates that severity does not significantly affect corporate turnaround, thus the theoretical assumption derived from Stakeholder Theory is not confirmed in this research context. This result aligns with Daily and Dalton (1994), who stated that high financial pressure does not always drive effective recovery, particularly in the property industry, which tends to respond to crises thru project delays and long-term debt restructuring.

Theoretically (Das Sollen), firm size is assumed to have a positive influence on turnaround success based on Signaling Theory. However, empirical results show that firm size has a positive coefficient of 0.067296 with a probability value of 0.7747, indicating statistical insignificance. These findings indicate that company size does not serve as a signal of recovery success. These results are consistent with Sudarsanam and Lai (2001), who showed that organizational complexity and structural rigidity in large companies can actually hinder the recovery process.

Next, free assets are theoretically viewed as an important strategic resource within the Resource-Based View framework. However, empirical results show a coefficient of 0.027207 with a probability value of 0.8455, indicating no significant influence on corporate turnaround. This finding supports Francis and Desai (2005) who stated that unencumbered assets are not always effectively convertible into sources of recovery, especially in the property sector which has a low level of asset liquidity.

The variable of asset retrenchment, which is theoretically supported by Agency Theory, also showed insignificant results. Although the coefficient is positive at 1.886093, the probability value of 0.6758 indicates that the asset reduction strategy does not significantly affect corporate turnaround. This finding aligns with Chowdhury and Lang (1996), who

asserted that asset sales do not always improve performance, particularly when the assets being sold are strategic or difficult to realize without losing value.

Overall, the results of this study indicate a gap between Das Sollen and Das Sein, where strong theoretical assumptions are not fully confirmed empirically. This confirms that corporate turnaround in the property and real estate sector is a complex phenomenon that cannot be explained solely thru financial indicators.

1. Severity terhadap Corporate Turnaround

The test results show that severity does not significantly affect the success of a corporate turnaround. This finding indicates that the severity of financial stress reflected in financial ratios does not automatically determine the ability of property and real estate companies to recover performance. In other words, increasingly strained financial conditions do not always correlate directly with the probability of a successful turnaround. This result differs from the views of Whitaker (1999) and Pearce and Robbins (1993), who stated that high levels of distress should encourage management to take more aggressive and effective recovery actions.

However, the findings of this study actually strengthen the argument of Daily and Dalton (1994), who assert that high financial pressure often narrows managerial discretion and increases conflicts of interest between companies and creditors. In the context of the property and real estate sector, financial distress doesn't always reflect operational failure; rather, it often represents the accumulation of large-value assets that haven't yet generated cash flow. Therefore, high severity reflects more on the timing and financing structure of the project rather than the company's readiness or inability to recover.

From an academic perspective, these findings suggest that using financial distress indicators as a single predictor of corporate turnaround success needs to be reexamined, particularly in asset-based sectors. Further research is recommended to combine severity measures with non-financial indicators, such as leadership quality, restructuring strategy, and negotiation skills with creditors, to make the turnaround prediction model more comprehensive.

For management, these results confirm the importance of strategically reading financial conditions, not solely based on the severity of the loss ratio. Management needs to distinguish between temporary liquidity issues and long-term business viability concerns. In the property sector, project cash flow management and debt restructuring strategies are becoming more decisive factors than simply improving short-term financial ratios.

For investors, this finding serves as a warning that a high level of financial distress does not always indicate a lack of recovery opportunities. Investors need to conduct a more contextual analysis, considering asset structure, project portfolio, and future revenue realization prospects. Meanwhile, for capital market regulators, the results of this research indicate the need for policies that not only rely on short-term financial indicators but also encourage transparency regarding companies' recovery strategies and business plans. For creditors, this finding confirms that debt restructuring decisions should not be based solely on the severity of financial ratios, but should also consider the potential for asset reactivation and the sustainability of the company's business model.

2. Firm Size terhadap Corporate Turnaround

The research results indicate that firm size does not significantly affect corporate turnaround, suggesting that company size does not automatically guaranty successful performance recovery. This finding differs from the view of Smith and Graves (2005), who stated that large companies have stronger resources and bargaining power to survive and recover from financial pressure.

However, the results of this study are actually in line with Sudarsanam and Lai (2001), who emphasize that large companies often face organizational rigidity and decision-making complexity, which can hinder the effectiveness of the recovery process. In the property and real estate sector, large company size is generally accompanied by an extensive project portfolio and complex financing structure, which limits managerial flexibility in responding to crises quickly and adaptively.

From an academic perspective, these findings strengthen the argument that company size is not a deterministic variable in explaining the success of corporate turnarounds. Further research needs to separate the influence of company size from other factors such as asset management effectiveness, organizational structure, and the quality of strategic decision-making to provide a more comprehensive understanding of turnaround dynamics.

For management, these results confirm that a large scale of operations cannot be the basis for a sense of security in the face of performance pressure. Large company management is required to manage internal complexity more efficiently and accelerate decision-making processes as part of risk management and recovery strategies.

For investors, this finding serves as a warning that company size does not always reflect the ability to recover from distress. Therefore, investors need to assess the quality of leadership, strategic focus, and the effectiveness of project management, not solely based on total assets or business scale. Meanwhile, for regulators, the results of this study indicate the need for equal supervision between large and small companies, as size does not guaranty stability or resilience. For creditors, this finding confirms that credit facilities should not be granted more leniently simply because of the company's large size, but should instead consider project management capacity and sustainable cash flow.

3. Free Assets terhadap Corporate Turnaround

The research results indicate that free assets do not have a significant impact on corporate turnaround. This finding contradicts the view of Barker and Duhaime (1997), who stated that unencumbered assets provide crucial financial flexibility in supporting a company's recovery process. Theoretically, the existence of free assets is assumed to allow companies to obtain additional funding or restructure without excessive contractual pressure.

However, the results of this study are consistent with Francis and Desai (2005), who showed that high-value assets are not always easily converted into usable liquidity quickly. In the context of the property and real estate sector, free assets are generally land and buildings that have significant economic value but take a long time to realize and are highly dependent on market conditions. As a result, the existence of free assets does not immediately improve the company's ability to recover performance in the medium term.

From an academic perspective, these findings suggest that the concept of slack resources within the Resource-Based View framework needs to be adjusted to account for the characteristics of sectoral asset liquidity. Further research needs to distinguish between

liquid financial slack and illiquid asset slack to more accurately explain their impact on corporate turnaround.

For management, these results confirm the importance of realistically interpreting asset data. Risk management is not enough just by having free assets; it must be accompanied by a clear, measurable, and market-appropriate monetization plan. Strategic decisions regarding assets need to consider the timing of realization and their impact on the company's cash flow.

For investors, this finding serves as a warning that the size of unencumbered assets does not automatically reflect investment security or a company's ability to recover. Investors need to assess the quality of assets and their potential liquidity more deeply. Meanwhile, for regulators, the results of this study highlight the need for more detailed disclosure of information regarding the quality and liquidity levels of company assets. For creditors, this finding confirms that collateral valuation should not be based solely on book value, but should also consider the speed and value of asset realization under realistic market conditions.

4. Asset Retrenchment terhadap Corporate Turnaround

The research results indicate that asset retrenchment does not significantly affect corporate turnaround. This finding differs from the views of Robbins and Pearce (1992) and Arogyaswamy et al. (1995), who emphasized that retrenchment strategies are an important mechanism for stopping declining performance and supporting the company's recovery process.

However, the results of this study are consistent with Chowdhury and Lang (1996), who found that asset sales are often ineffective when applied to strategic assets or in weak market conditions. In the context of the property and real estate sector, asset retrenchment faces the risk of a fire sale, where assets are sold below their fair value due to liquidity pressures. This condition not only limits the short-term benefits of retrenchment but also potentially damages company value and weakens long-term recovery capacity.

From an academic perspective, these findings highlight the importance of distinguishing between strategic retrenchment and forced retrenchment in corporate turnaround research. Further research needs to examine not only the intensity of asset reduction, but also the motives, timing, and quality of the assets divested in order to more accurately capture the effectiveness of the retrenchment strategy.

For management, these results confirm that asset sales should be conducted selectively and based on a long-term strategy, not as a reactive response to short-term financial pressure. The retrenchment decision needs to be linked to a clear restructuring plan and its impact on the company's operational sustainability.

For investors, this finding serves as a warning that asset reduction is not always a positive sign of recovery, especially if it is done under unfavorable market conditions. Investors need to assess the context and objectives of asset disposal more deeply. Meanwhile, for regulators, the results of this study indicate the need for policies that prevent asset stripping practices that could harm minority shareholders and weaken company value. For creditors, this finding confirms that approval of asset disposals needs to consider the long-term impact on business continuity, not just short-term liquidity improvement.

CONCLUSION

This study analyzes the influence of severity, firm size, free assets, and asset retrenchment on the success of corporate turnaround in Indonesian property and real estate companies experiencing negative return on assets (ROA). The results of the binary logistic regression test show that severity has a negative influence on the likelihood of turnaround success, but a high level of financial pressure actually limits management's strategic flexibility in the long-term asset-based sector. Meanwhile, firm size, free assets, and asset retrenchment do not significantly affect corporate turnaround, indicating that company size, ownership of unencumbered assets, and asset disposal strategies do not automatically determine the success of performance recovery. This finding reflects the characteristics of the asset-intensive, illiquid, and highly cyclical nature of the property and real estate sector, which limits the effectiveness of conventional financial ratios and indicators. Overall, this research confirms the existence of a gap between the theoretical framework based on financial indicators and the empirical reality of corporate turnaround in the property sector, and shows that the success of recovery is more determined by non-financial factors such as leadership quality, debt restructuring effectiveness, institutional support, and project management strategy. Therefore, a multidimensional approach is needed to assess corporate turnaround opportunities.

REFERENCES

Altman, E. I. (2000). Predicting financial distress of companies: Revisiting the Z-Score and ZETA® models. *Journal of Banking & Finance, 24*(1–2), 1–31.

Altman, E. I. (2018). *Corporate financial distress, restructuring, and bankruptcy* (4th ed.). Wiley.

Altman, E. I., & Hotchkiss, E. (2006). *Corporate financial distress and bankruptcy: Predict and avoid bankruptcy, analyze and invest in distressed debt* (3rd ed.). Wiley.

Andrews, D. W. K. (1988). Chi-square diagnostic tests for econometric models: Theory. *Econometrica, 56*(6), 1419–1453. https://doi.org/10.2307/1913105

Arogyaswamy, K., Barker, V. L., & Yasai-Ardekani, M. (1995). Firm turnarounds: An integrative two-stage model. *Journal of Management Studies, 32*(4), 493–525. https://doi.org/10.1111/j.1467-6486.1995.tb00786.x

Barker, V. L., & Duhaime, I. M. (1997). Strategic change in the turnaround process: Theory and empirical evidence. *Strategic Management Journal, 18*(1), 13–38. https://doi.org/10.1002/(SICI)1097-0266(199701)18:1<13::AID-SMJ843>3.0.CO;2-X

Beaver, W. H. (2005). *Financial ratios as predictors of failure*. *Journal of Accounting Research, 18*(1), 109–131.

Bibeault, D. B. (1999). *Corporate turnaround: How managers turn losers into winners*. McGraw-Hill.

Bruton, G. D., Ahlstrom, D., & Wan, J. C. (2003). Turnaround in East Asian firms: Evidence from ethnic overseas Chinese communities. *Strategic Management Journal, 24*(6), 519–540. https://doi.org/10.1002/smj.311

Chowdhury, S. D., & Lang, J. R. (1996). Turnaround in small firms: An assessment of efficiency strategies. *Journal of Business Research, 36*(2), 169–178. https://doi.org/10.1016/0148-2963(95)00159-8

Cooper, D. R., & Schindler, P. S. (2014). *Business research methods* (12th ed.). New York, NY: McGraw-Hill Education.

Daily, C. M., & Dalton, D. R. (1994). Corporate governance and the bankrupt firm: An empirical assessment. *Strategic Management Journal, 15*(8), 643–654. https://doi.org/10.1002/smj.4250150806

Denis, D. J., & Denis, D. K. (1995). Performance changes following top management dismissals. *Journal of Finance, 50*(4), 1029–1057. https://doi.org/10.1111/j.1540-6261.1995.tb04049.x

Francis, J. D., & Desai, A. B. (2005). Situational and organizational determinants of turnaround. *Management Decision, 43*(9), 1203–1224. https://doi.org/10.1108/00251740510626272

Hair, J. F., Black, W. C., Babin, B. J., & Anderson, R. E. (2019). *Multivariate data analysis* (8th ed.). Cengage Learning.

Hambrick, D. C., & Schecter, S. M. (1983). Turnaround strategies for mature industrial-product business units. *Academy of Management Journal, 26*(2), 231–248. https://doi.org/10.2307/255972

Hosmer, D. W., Lemeshow, S., & Sturdivant, R. X. (2013). *Applied logistic regression* (3rd ed.). John Wiley & Sons.

Isbahi, M. B., Zuana, M. M. M., & Toha, M. (2024). The Multi-Social Relation of the Cattle Industry in the Plaosan Subdistrict Animal Market of Magetan Regency. *Malacca: Journal of Management and Business Development*, *1*(1), 31–46. https://doi.org/10.69965/malacca.v1i1.51

Long, J. S., & Freese, J. (2014). *Regression models for categorical dependent variables using Stata* (3rd ed.). Stata Press.

Morrow, J. L., Johnson, R. A., & Busenitz, L. W. (2004). The effects of cost and asset retrenchment on firm performance: The overlooked role of a firm's competitive environment. *Journal of Management, 30*(2), 189–208. https://doi.org/10.1016/j.jm.2003.01.002

Ndofor, H. A., Vanevenhoven, J., & Barker, V. L., III. (2013). Software firm turnarounds in the 1990s: An analysis of reversing decline in a growing, dynamic industry. *Strategic Management Journal, 34*(9), 1123–1143. https://doi.org/10.1002/smj.2060

Norman, P. M., Artz, K. W., & Martinez, R. J. (2013). Does it pay to be different? The role of competitive actions and responses in shaping firm performance. *Strategic Management Journal, 34*(9), 1123–1143.

Nugroho, A. (2018). Financial distress and corporate turnaround: Evidence from Indonesian public companies. *Jurnal Keuangan dan Perbankan, 22*(3), 456–469.

Ohlson, J. A. (1980). Financial ratios and the probabilistic prediction of bankruptcy. *Journal of Accounting Research, 18*(1), 109–131.

Pearce, J. A., & Robbins, D. K. (1993). Toward improved theory and research on business turnaround. *Journal of Management, 19*(3), 613–636. https://doi.org/10.1177/014920639301900306

Pearce, J. A., II, & Robbins, D. K. (2008). Strategic transformation as the essential last step in the process of business turnaround. *Business Horizons, 51*(2), 121–130. https://doi.org/10.1016/j.bushor.2007.10.003

Rico, M., & Puig, F. (2019). The role of firm size in turnaround success: Evidence from European firms. *Journal of Business Research, 98*, 168–178. https://doi.org/10.1016/j.jbusres.2018.12.052

Robbins, D. K., & Pearce, J. A. (1992). Turnaround: Retrenchment and recovery. *Strategic Management Journal, 13*(4), 287–309. https://doi.org/10.1002/smj.4250130404

Schmitt, A., & Raisch, S. (2013). Corporate turnaround: The duality of retrenchment and recovery. *Journal of Management Studies, 50*(7), 1216–1244. https://doi.org/10.1111/joms.12045

Sekaran, U., & Bougie, R. (2016). *Research methods for business: A skill-building approach* (7th ed.). Chichester, UK: John Wiley & Sons.

Shleifer, A., & Vishny, R. W. (1992). Liquidation values and debt capacity: A market equilibrium approach. *Journal of Finance, 47*(4), 1343–1366.

Smith, M., & Graves, C. (2005). Corporate turnaround and financial distress. *Managerial Auditing Journal, 20*(3), 304–320. https://doi.org/10.1108/02686900510585623

Sudarsanam, S., & Lai, J. (2001). Corporate financial distress and turnaround strategies: An empirical analysis. *British Journal of Management, 12*(3), 183–199. https://doi.org/10.1111/1467-8551.00193

Tao, Q., Sun, Y., Zhu, Y., & Zhang, Y. (2020). Strategic configurations of retrenchment and recovery: Evidence from firm turnaround. *Management Decision, 58*(9), 1937–1956. https://doi.org/10.1108/MD-01-2019-0094

Trahms, C. A., Ndofor, H. A., & Sirmon, D. G. (2013). Organizational decline and turnaround: A review and agenda for future research. *Journal of Management, 39*(5), 1277–1307.

Whitaker, R. B. (1999). The early stages of financial distress. *Journal of Economics and Finance, 23*(2), 123–132. https://doi.org/10.1007/BF02745946

White, M. J. (1984). Bankruptcy, liquidation and reorganization. In R. Schmalensee & R. Willig (Eds.), *Handbook of industrial organization* (Vol. 2, pp. 107–164). Elsevier.