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# Literatur Review: Financial Recovery Post Covid 19

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***Abstract:*** *The purpose of this study was to find steps in restoring the company's financial condition through the company's turnaround proxy. The crisis due to Covid-19 has an impact on the company's finances which ended in a slump so that a strategy must be found to overcome the company's financial problems. This study uses a turnaround proxy in the financial recovery process. Research Method: This study uses a descriptive qualitative statistical analysis method, namely by understanding the phenomena that occurred during the Covid-19 pandemic which caused the company's financial difficulties. Findings/Results: steps taken in Financial Recovery are applied to reverse the loss situation into a profitable situation, including by reducing operational costs through (1) free assets, (2) asset reduction, (3) severity.*

## Introduction

Covid-19 is a time when almost every business sector in the world is experiencing a downturn. Many efforts have been made to reduce and stop the spread of the Covid-19 virus, such as implementing Large-Scale Social Restrictions (PSBB), implementing curfews in several zones to physical distancing. These policies ultimately affect the performance of various sectors. These problems have caused many companies to suffer losses and even bankruptcy.

This is what drives all business sectors to try to turn their companies around by trying to recover. In the process of recovering the business sector, the movement of human resources and logistics must also be guaranteed. If the business sector before the Covid crisis was expected to run smoothly, but after the current normal situation, it is required to be safe too. Another term commonly used in the process of financial recovery of companies that are experiencing a crisis is corporate turnaround. Corporate turnaround is the implementation of a series of actions needed to save an

organization from business failure and return it to normal operational conditions and financial solvency. in this study corporate turnaround. To make a company recover financially, other factors are needed such as free assets, asset retrenchment and saverity.

Free assets can be interpreted as reserve company assets as collateral for future loans (Yuniastuti and Trisnawati, 2018). With sufficient free assets, it means that the company's assets are greater than the debt they have. The chances of success will be greater and allow you to avoid bankruptcy. In addition, when companies will find it easier to get assistance if they need additional loan funds as a form of successful turnaround indicators and are able to convince creditors when providing loans (Lestari and Triani, 2014). Free assets will be needed in the financial recovery process.

Retrenchment is a company's solution in reducing less useful resources. In this regard, the important role of corporate turnaround can be divided into three, namely cutting costs, increasing efficiency and investing in technology. With an increase in efficiency, the company's profitability will increase (Nastiti and Pangestuti, 2016). To support this step, an efficiency strategy is needed which is carried out with asset retrenchment as an effort to reduce the company's resources for corporate turnaround. Severity is one of the situational factors that affect the success of turnaround (Francis and Desai, 2005). Severity shows how severe the level of financial distress experienced by a company is as reflected by financial ratios, the higher the level of financial distress experienced by the company, the less likely the company's turnaround success will be. Robbins and Pearce in Smith and Graves (2005) argue that companies that are very financially depressed must reduce costs and assets in order to survive. This article is a literature review that discusses the influence of the relationship between free assets, asset retrenchment and saverity on financial recovery.

## Literatur Review

### Signaling Theory

Signaling theory was first proposed by Spence (1973) which states that the sender (the owner of the information) gives a signal or signal in the form of information that reflects the condition of a company that is beneficial to the recipient (investor). Relevant signal theory is used in this study. Signals and information disseminated can influence the actions investors take. In difficult circumstances, providing good quality information to investors or potential investors is very much needed. The better the quality of the information provided, the more people will invest. The more funds obtained, the hope is that it can help the company improve its performance. Continuous performance improvement can enable companies to achieve financial recovery

## Research Methods

This study uses a qualitative descriptive statistical analysis method (Anggarini, 2021), namely by understanding the phenomena that occurred during the covid-19 pandemic that caused the company's financial decline, then providing strategies related to these problems. The data that will be used in this research is a literature study in the form of articles, literature, articles, journals, websites, and books.

## Result and Discussion

### Effect of Free Assets to Financial Recovery

Free assets or company resources that are still free will help companies reduce the effects of declining financial performance and provide resources to take effective action, so companies with more free resources have a better chance of surviving during the decline. So, the greater the free assets owned by the company, the greater the possibility of the company to achieve turnaround success (Lestari and Triani, 2014). Research conducted by Chetta and Khomsiyah (2022) shows that free assets have a positive and significant effect on corporate turnaround. According to Welsh, John A, White (1981) free assets are company assets that are not guaranteed on previous loans and are used as collateral reserves if needed for future loans.

According to Singh (1986) free assets are the company's liquid resources that are not guaranteed. According to Lestari and Triani (2014) free assets is the level of the company's ability to pay short-term obligations. Companies experiencing financial distress with sufficient free assets (such as assets that exceed debt or fixed assets that exceed debt guarantees) will have a higher chance of success in avoiding bankruptcy. This will make it easier for companies to obtain additional funds needed to achieve successful financial recovery.

### Effect of Asset Retrechment to Financial Recovery

Assets retrenchment is defined as a reduction in the number of assets with the aim of increasing efficiency and effectiveness. Assets that are no longer useful for the company can be sold, so the company can increase the company's cash amount and increase the company's short-term profitability. Asset Retrenchment is one of the company's performance optimization strategies. Assets retrenchment is an action taken by the company to optimize the company's performance by reducing the use of total assets. Marbun and Situmeang, stated that asset retrenchment is an efficiency carried out by the company by laying off assets (Situmeang, 2014). Retrenchment is an organization's overall response to corporate decline by refocusing company resources on primary rent-generating activities (Castrogiovanni, G.J., Baliga, B.R. and Kidwell, 1992). savings will ultimately have a positive effect on turnaround.

Robbins, D.K. and Pearce (1992) find that firms pursuing retrenchment achieve better-than-average gains. Retrenchment is a solution carried out by companies in reducing resources that are less useful. The important role of corporate turnaround in this regard can be divided into three, namely cost cutting, technology investment and efficiency improvement. With the increase in efficiency, the company's profitability will increase. To support this stage, asset retrenchment is needed in carrying out an efficiency strategy Chetta and Khomsiyah (2022). The better the efficiency strategy carried out by the company, both in terms of saving assets, it will have an impact on the company's ability to perform financial recovery.

Nastiti and Pangestuti (2016) stated that asset retrenchment has a positive influence on corporate turnaround. Research Situmeang (2014) shows that asset retrenchment has a positive and significant effect on corporate turnaround. With the increase in efficiency, the company's profitability will increase. To support this stage, asset retrenchment is needed in carrying out an efficiency strategy (Chetta and Khomsiyah, 2022). The better the efficiency strategy carried out by the company, both in terms of saving assets, it will have an impact on the company's ability to carry out financial recovery.

## Effect of Severity to Financial Recovery

Severity is one of the situational factors that affect the success of the turnaround (Francis and Desai, 2005). Severity shows how severe the level of financial distress experienced by a company is as reflected by financial ratios, the higher the level of financial distress experienced by the company, the less likely the company's turnaround success is. Robbins and

Pearce in Smith and Graves (2005) argue that companies that are very financially depressed must reduce costs and assets in order to survive. Severity shows how much of a decline in the company's performance is reflected by the difference between the Z-score in the first year and the Z-score in the second year. Companies with less severe levels of performance decline can apply various strategies such as developing marketing and sales promotions or moving into other market segments. while companies with more severe levels of distress have limited action to utilize resources (Robbins, D.K. and Pearce, 1992). This shows that the greater the level of decline in performance, the more difficult it will be for the company to achieve financial recovery.

## Conclusion and Suggestion

Based on the explanation described above, it can be concluded that companies experiencing financial distress with sufficient free assets (such as assets that exceed debt or fixed assets that exceed debt guarantees) will have a higher chance of success in avoiding bankruptcy. This will make it easier for companies to obtain additional funds needed to achieve successful financial recovery. Austerity is an organization's overall response to corporate downturn by refocusing company resources on primary rent-generating activities Castrogiovanni (1992) savings will ultimately have a positive effect on turnaround. Robbins, D.K. and Pearce (1992) find that firms pursuing retrenchment achieve better-than-average gains. With the increase in efficiency, the company's profitability will increase.

To support this stage, asset retrenchment is needed in carrying out an efficiency strategy (Chetta and Khomsiyah, 2022). The better the efficiency strategy carried out by the company, both in terms of asset savings, the more capable the company will be to carry out Financial Recovery. Companies with less severe levels of performance decline can apply various strategies such as developing marketing and sales promotions or moving into other market segments, while companies with more severe levels of distress have limited action to utilize resources (Robbins, D.K. and Pearce, 1992). This shows that the greater the level of decline in performance, the more difficult it will be for the company to achieve financial recovery.

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