Conference Paper

Turnaround Strategy of Financially Distressed Company: Empirical Study of Manufacturing Company Listed on Indonesia Stock Exchange

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Abstract

The purpose of this article is to examine financially distressed companies in Indonesia and their restructuring strategies. The strategies we observed are merger and acquisition, CEO turnover, and employee lay-off. This study tries to identify the difference of abnormal return and average abnormal return before and after the strategies announcement. This study uses event study and market model method. Through purposive sampling, 30 companies were categorized as financially distressed using Altman *z*-score in the period of 2009–2011, and 14 events were identified as turnaround strategies in the period of 2012–2017 as the sample. The observation period was 10 days prior to, 1 day during, and 10 days following the strategies announcement. The research variables are abnormal return assessed using One Sample *t*-test and average abnormal return assessed using Paired Sample *t*-test. It was found out that there are three events of merger and acquisitions, five events of CEO turnover, and six events of employee lay-off. The result shows that there is a positive significant difference abnormal return in the merger and acquisition announcement and no significant difference abnormal return for CEO Turnover and Employee Lay-off. The second result shows that there are no significant differences in the average abnormal return of stock before and after merger and acquisition, CEO turnover, and employee lay-off.

Keywords: turnaround strategies, financial distress, abnormal return

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1. Introduction

Changes in the economic conditions often affect financial performance, for small, medium and large companies. Management who are not ready for changes in economic conditions will face the possibility of a decline in financial performance and the worst experience the bankruptcy (Almilia & Kristijadi, 2014). High market competition will certainly make it difficult for the company to maintain its existence. Companies are

required to develop innovation, improve overall performance, and expand business in order to stay in competition. The level of ability of a company is largely determined by the performance of the company itself. In this case, companies that are unable to compete will eventually be evicted from the market and will experience bankruptcy (Suhfriahtiningsih, 2017).

The bankruptcy of a company is characterized by a stage of decline in financial conditions or commonly referred to as financial distress can be experienced by various large or small companies from various industrial sectors (Suhfriahtiningsih, 2017). Financial distress is defined as the stage of decreasing financial conditions that occur before bankruptcy or liquidation (Platt & Platt, 2002). The ability to indicate financial distress conditions allows companies to anticipate through various programs/business plans to minimize the impact (Vestari & Farida, 2013). The management who can detect financial distress earlier, will be able to act actively to analyze the causes of financial distress and implement the right turnaround strategy, will be far more able to control these conditions (Suhfriahtiningsih, 2017).

Turnaround strategy is defined as a reversal of the direction of the company from a decrease in performance (Schendel, Patton, & Riggs, 1976). Turnaround is a process to bring a company from a poor performance situation to a situation of good sustained performance. Successful turnaround is a complex process that includes a combination of environmental factors, internal resources, relevant corporate strategies at various stages of performance degradation, which results in improved financial performance. Companies need strategies that are indeed effective to achieve recovery or turnaround success (O'Neill, 1986, Schendel, Patton, & Riggs, 1976). There are various turnaround strategies implemented to reverse the loss situation in profit circumstances (Pearce II & Robbins, 1994), including reducing operating costs through reducing labor, selling assets, reducing business units and exchanging management (Pearce II & Robbins, 1993).

The success of a company is reflected in the value of the company. For companies that go public, the value of the company can be observed from its stock price. Share prices always reflect the value of the company (Telaumbanua & Sumiyana, 2008). Share prices are strongly influenced by fundamental and technical factors. The consideration of investors to make a decision to invest in stocks is information about the condition of the company. An information can be said to have value for investors if the information provides a reaction to conduct transactions in the capital market. This can be seen from the abnormal return which is one indicator that can be used to see the current market situation (Jogiyanto, 2010).

Kam et al. (2010), examines how the market reacts to the implementation of turnaround strategies applied by companies experiencing financial distress in 2 companies, namely government companies and private companies. Researchers pay attention to 4 strategies namely mergers and acquisitions, asset sales, management restructuring and debt restructuring. The results show that the strategy of mergers and acquisitions has the highest impact on market reaction. Research conducted by Ashayeri et al. (2014) found that downsizing increases the long-term effectiveness of resources in companies that experience bankruptcy. Management needs to pay special attention to applying downsizing if bankruptcy pressure is to balance short-term survival and long-term prosperity of the company. In downsizing the action of terminating employees is an action taken by the company in overcoming a poor operating performance (Lin et al. 2008).

Maheshwari, (2000) explains that the turnaround process begins with changes in top management. This consistently shows that the commitment of leadership has increased and there are efforts to restore the trust of stakeholders. Research conducted by Chan, (1993) found that 10 out of 10 cases exist, companies choose to replace their CEO. Gopinath, (1991) also found that 20 of the 22 companies that made turnarounds applied CEO turnover to their companies, this was confirmed by a study by Gilson, 1990 which found that companies tended to do CEO turnovers in companies that experienced financial distress.

This article examines the restructuring and subsequent performance of financially distressed manufacturing companies in Indonesia. It looks at the distress resolution strategies they employed and the valuation effects of their restructuring announcements. The strategies we observed are merger & acquisition, CEO turnover and employee lay-off. This study tries to identify the difference of abnormal return and average abnormal return before and after the strategies announce.

2. Literature Review

2.1. Financial distress

Financial distress is the initial stages before the company go through bankruptcy or liquidity. Financial distress can be known by a poor financial performance of company, technically bankruptcy always begins with financial distress. Financial distress can be described from two extreme points, namely short-term liquidity difficulties to insolvency. Short-term financial distress are usually take a short-term period, but can develop into

severe and get worst. Indicators of financial distress can be seen from cash flow analysis, company strategy analysis, and company financial statements (Mamduh & Halim, 2007).

2.2. Turnaround strategy

Turnaround strategy is the process of reversing the direction of the company from poor performance to a better performance (Schendel, et al. 1976). A corporate turnaround may be defined simply as the recovery of a company's economic performance following an existence-threatening decline. A successful turnaround is a complex process which includes a combination of environmental factors, internal resources, relevant corporate strategies at various stages of performance degradation, which results in improved financial performance or recovery. A company need to acknowledge and identify it's problem first and then implement the problem-solving strategy (Arogyaswamy et al., 1995).

2.3. Mergers and acquisitions

There are three ways to deal with financial distress. First, the company change all assets into cash and collecting the remaining receivables, where the cash will be divided equally to creditors and investors. Second, do mergers and acquisitions and the third is by taking a legal action like arbitration. Mergers and acquisitions are one of the strategies pursued by companies to maintain and improve financial performance (Mutamimah, 2009). Mitchell & Mulherin (1996) found out that mergers provide value to investors due to the merger of two companies. This means that in general mergers and acquisitions provide benefits and have a positive impact on joint companies. Gugler et al. (2003) concludes that mergers generally result in a significant increase in profits in joint companies, de Young et al. (2009) also said that mergers and acquisitions in the financial sector have a positive effect on company performance. Auqie (2013) states that the announcement of mergers and/or acquisitions in companies listed on the Indonesia Stock Exchange will influence the market reaction.

H_{1a}: There is a significant market reaction around the date of the announcement of mergers & acquisitions in financial distress companies.

2.4. CEO turnover

Actions taken by companies that experience a decline in performance are determined from the policy of the leader. In improving the condition of the company, changes in

the senior management team are important steps to be taken to improve stakeholders' trust (Arogyaswamy et al. 1995). The reason why some companies experience success and some experience failure is no longer only in the strategy applied, but also in the management of the company, on the other hand the manager is also able to be the cause of a company's decline (Whiting & Miller, 2008). Research conducted by Hofer, (1980) found that most of the successful turnaround applied turnover to company management.

Maheshwari, (2000) explains that the turnaround process begins with changes in top management. This consistently shows that the commitment of leadership has increased and there are efforts to restore the trust of stakeholders. New management is considered to be able to restore stakeholder trust (Maheshwari, 2000) and can bring new knowledge, abilities and perspectives in the company (Grinyer et al., 1990; Tourtellot, 2004) Research conducted by Chan, (1993) found that 10 out of 10 cases exist, companies choose to replace their CEO. Gilson, (1990) also found that 20 of the 22 companies that made turnarounds applied CEO turnover to their companies, this was confirmed by a study by Gilson, (1990) which found that companies tended to do CEO turnovers in companies that experienced financial distress.

Research in the United Kingdom conducted by Dahya & McConnell (2005) found that investors in the UK were positive for the announcement of CEO changes because they considered CEO turnover as good news. At the other hand, Dedman & Lin, (2002) stated that markets react negatively to announcements. The results of research in Australia conducted by Suchard et al. (2001) showed the market reacted negatively to the announcement of CEO turnover. Meanwhile, investors in Japan reacted positively to the announcement of CEO turnover (Kang & Shivdasani, 1996).

H_{1b}: There is a significant market reaction around the date of the announcement of management turnover (CEO Turnover) in financial distress companies.

2.5. Downsizing

Operational restructuring has been considered as one of the important turnaround strategies for a company when facing bankruptcy pressure (Lin et al. 2008). In companies that experience losses, the first step is to control costs to return to gain some profit. Cutting labor costs, production costs, sales and administrative costs, R & D spending is a common step in restructuring companies (Denis & Kruse, 2000). Brain & Co's survey, 2013 by interviewing 1,208 executives, resulted in 60% of executives choosing to downsize as a management tool when the company experienced a decline (Santana et al. 2017).

Ashayeri et al. (2014) found that downsizing increases the long-term effectiveness of resources in companies that experience bankruptcy. Management needs to pay more attention to applying downsizing if there is a bankruptcy pressure to balance short-term survival and long-term prosperity of the company. More specifically, the solution to downsizing companies that face the risk of bankruptcy can prevent a liquidity crisis, and provide guarantees in the fulfillment of debt to creditors. Downsizing such as employee lay-off is an actions taken by the company in overcoming poor operating performance (Lin et al. 2008).

H_{1c}: There is a significant market reaction around the date of the announcement of employee lay-off (downsizing) in financial distress companies

Based on the H_1, the H_2 is needed to determine the average difference in each strategy

H_{1c}: There is a differences in average abnormal returns after and before the announcement of mergers & acquisitions, employee lay-off (downsizing), management turnover (CEO Turnover) in financial distress companies.

3. Research Methodology

This study uses a quantitative approach with the type of research used is event study. The type of data in this study is secondary data. The data in this research were obtained through the Indonesia Stock Exchange website accessed through http://www.idx.co.id and sahamok site accessed through www.sahamok.com.

3.1. Sample selection

The population in this study is a manufacturing company listed on the Indonesia Stock Exchange that experienced financial distress 2 years in a row during 2009-2011. The sampling criteria are categorized as financial distress manufacturing companies based on Altman z-score that provide information regarding the announcement of turnaround strategies, namely mergers & acquisitions, CEO turnover and downsizing (reduction of employees) during 2012-2017. After eliminating companies that do not make announcements of turnaround strategies from the population, a sample of research can be seen in Table 1. As for the list of companies that provide information regarding the announcement of turnaround strategies, namely mergers & acquisitions, CEO turnover and employee lay-off (downsizing) can be seen in Table 2.

Table 1: Population and sample.

Result	Total
Manufacturing companies 2009–2011	124
Manufacturing companies with uncomplete data	11
Manufacturing companies categorized FD	30
Manufacturing companies categorized Grey Area	48
Manufacturing companies categorized Non-FD	35
Research population	30
Research sample	14

Table 2: Date of announcement strategy.

Code	Turnaround Strategy	Date of Announcement
TKIM	Merger & Acquisition	10 September 2013
AISA	Merger & Acquisition	14 May 2014
MYRX	Merger & Acquisition	10 June 2014
ERTX	CEO Turnover	23 April 2012
ADES	CEO Turnover	25 June 2013
INAI	CEO Turnover	24 June 2014
KBRI	CEO Turnover	15 August 2017
INKP	CEO Turnover	13 June 2017
ARGO	Employee Lay-Off	15 September 2015
POLY	Employee Lay-Off	29 October 2015
PICO	Employee Lay-Off	12 November 2015
TKIM	Employee Lay-Off	30 September 2016
INKP	Employee Lay-Off	12 May 2017
AISA	Employee Lay-Off	20 December 2017

3.2. Measurement of financial distress

Determination of companies experiencing financial distress is by measuring financial performance by using discriminant analysis (Altman, 2000), with the following formula:

$$Z = 0.717X_1 + 0.847X_2 + 3.107X_3 + 0.420X_4 + 0.998X_5$$

Z = Overall index

X_1 = Working capital/total assets

X_2 = Retained earnings/total assets

X_3 = Earnings before interest and taxes/total assets

X_4 = Book value equity/book value of total liabilities

X_5 = Sales/total assets

With the following criteria:

1. If the value of Z < 1.21 is a bankrupt company.
2. If the value of 1.23 < Z < 2.90 is gray area (it cannot be determined whether the company is healthy or has bankruptcy).
3. if the value of Z > 2.90 is a company that is not bankrupt.

3.3. Measurement of abnormal return

The performance measured in this study is the stock price of a financial distress company that implements restructuring of mergers & acquisitions, management turnover (CEO turnover), and employee lay-off (downsizing) as a form of strategy turnaround. The measuring instrument used to measure performance is Abnormal Return. Event studies analyze abnormal returns from companies that may occur around the announcement of an event.

- Abnormal Return

$$AR_{i,t} = R_{i,t} - E[R_{i,t}] \quad (1)$$

Description:

$Ar_{i,t}$: Abnormal return of the i-securities in the *t*-period of events

$R_{i,t}$: The actual return that occurs for the 1st securities in the *t*-event period.

$E[R_{i,t}]$: Return of the 1st securities expectation for the *t*-event period

- Actual Return

Where the formula is actual return (Jogiyanto, 2010: 64) are:

$$R_{i,t} = \frac{P_{i,t} - P_{i,t-1}}{i,t-1} \quad (2)$$

Description:

$R_{i,t}$: Daily stock return of securities *i* at period *t*

$P_{i,t}$: Daily securities stock price *i* at period *t*

$P_{i,t-1}$: securities daily share price *i* in period *t*–1

- Market-adjusted model

This study uses a market-adjusted model to determine the expected return (Jogiyanto, 2010: 76) with the formula:

$$E[R_{i,t}] = R_{M,i,t} \quad (3)$$

Description:

E [$R_{i,t}$]: Expected Return securities *i* in the *t* period of event

$R_{M,i,t}$: Return Market from the 1st securities in the period *t*-event

- Market return

Formula return Market (Jogiyanto, 2010: 76) is:

$$R_{M,t} = \frac{IHSG_t - IHSG_{,t-1}}{IHSG_{,t-1}} \quad (4)$$

Note:

R_{mt}: Return market

$IHSG_t$: $IHSG_t$ period *t*

$IHSG_{t-1}$: $IHSG_{t-1}$ period *t*–1

Results of calculation of abnormal returns that have been known, the average is calculated. Average Abnormal Return (AAR) by using a formula (Jogiyanto, 2010: 96):

$$AARt = \frac{\sum AR_{1,t}}{n} \quad (5)$$

Description:

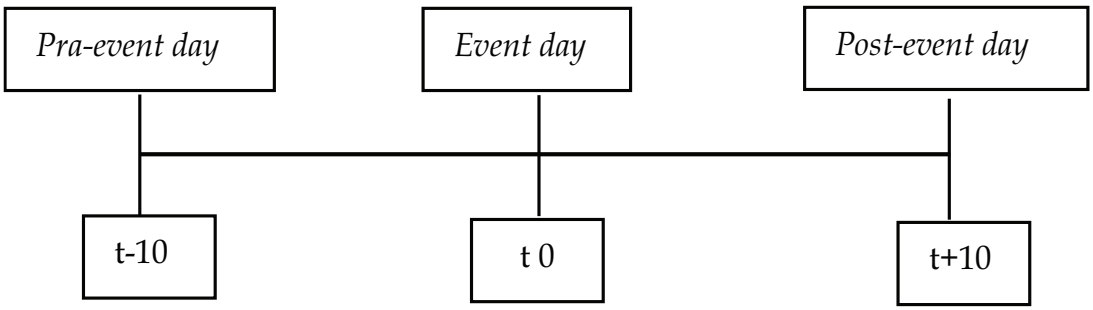
AAR_t: Average abnormal return of securities I period estimated

$\sum AR_{i,t}$: Number of abnormal return securities I in the period event

n: Number of companies

3.4. Event window

This study uses the company's daily stock data which is sampled in the study during the observation period. The observation period used in this study was 21 exchange days, namely 10 days before the event (*t* – 10), 1 day when the event occurred (*t* = 0), and 10 days after the announcement event (*t* + 10). The 21-day event period is taken in the hope that the market reaction can already be seen during that period.



3.5. Hypothesis test

We used one sample t-test to test hypothesis 1, this technique is used to test whether certain values differ significantly or not with the average of a sample (Ghazali, 2013: 97). This test is intended to analyze whether there are significant abnormal stock returns in the period surrounding the announcement of mergers and acquisitions, CEO turnover, and downsizing. The test criteria are at the 5% significance level by looking at whether the probability value is smaller or greater than 5%. There will be a difference if the probability value is smaller by 5% ($p < 5\%$), and if the probability value is greater than 5% (sig $t \geq 5\%$) then there is no difference in mean.

Hypothesis 2 states that there was a differences in average abnormal returns before and after the announcement of acquisition mergers, CEO turnover, and downsizing. Hypothesis 2 was tested by comparing average abnormal returns 10 days before and 10 days after the date of the event. Normality test is used to find out whether the variable data to be tested in the study is normal or not (Ghazali, 2013: 154). This is needed to determine the testing tool that will be used in hypothesis testing, whether in the form of a parametric test or non-parametric test. The tool used in testing normality is the Kolmogorov-Smirnov test. Kolmogorov-Smirnov test with a value of α = 5% or 0.05 which the test uses SPSS version 22, with the following criteria:

1. If the significance value is > 0.05, the data is normally distributed

2. If the significance value is < 0.05, the data is not normally distributed

If the data is normally distributed, then a statistical test is performed using the Paired-Sample *T*-Test, if the data is not normally distributed, the Wilcoxon Matched Signed Rank test is used with the criteria if sig. (2-tailed) > 0.05, then it's accepted, and if sig. (2-tailed) < 0.05, then it's rejected.

4. Result and Discussion

4.1. Normality test

In this study normality tests were carried out using the Kolmogorov–Smirnov test. The following are the results of the normality test.

Based on Table 3 results normality test using the Kolmogorov–Smirnov test, the value of Asymp. Sig. (2-tailed) is 0.200 which is greater than the significance value of 0.05 (α =

TABLE 3: Results of Normality test.

Variable	Significant	Description
Merger & Acquisition Before	0.200	Normal
Merger & Acquisition After	0.200	Normal
CEO Turnover Before	0.200	Normal
CEO Turnover After	0.200	Normal
Employee Lay-Off Before	0.200	Normal
Employee Lay-Off After	0.200	Normal

5%) so that the residual data is normally distributed. This shows that the data has fulfilled the aspect of normality.

4.2. Abnormal return for turnarouund strategy announcement

The first hypothesis, H_{1a} states 'There is a significant market reaction around the date of the announcement of mergers & acquisitions in companies financial distress'. Table 4 shows that there is abnormal return a significant with a 5% significance level during the period of the event, namely on days -2 and -1. Abnormal returns with positive values occur on days 2 and -1. This is based on t_{count} on days t–2 (6.425) and t–1 (12.425) greater than t_{table} (2.920). These results indicate that the capital market reacts to the announcement of mergers and acquisitions of manufacturing companies that experience financial distress as indicated by the presence of abnormal returns significant positive. Thus, H_{0is} rejected and H_{1a} received, so it can be concluded that the merger and acquisition of manufacturing companies experiencing financial distress has information content.

H_{1b} states 'There is a significant market reaction around the announcement date of the change of CEO (CEO turnover) on the company's financial distress'. Based on Table 5 found that abnormal return at the time of the event was announced at 0.022 with a value of t_{count} of 0.0823 smaller than t_{table} 2.132 this indicates that there is no significant difference in abnormal return of shares between before and after the announcement is CEO turnover made, so that H_0 is accepted and H_{1b} is rejected. During the 10 days before and 10 days after there is no difference abnormal return a significant occurs. The market shows a positive reaction but is not significant at the time the event is announced with an abnormal return of 0.022.

H_{1c} states 'There is a significant market reaction around the announcement date of the employee-lay off (downsizing) in the financial distress company'. Based on Table 5 there is an abnormal return negative but it is not significant on the day the event was announced which is equal to -0.007. The value of $t_{arithmetic}$ (-1.104) is smaller with the value

Table 4: Abnormal return of mergers & acquisitions.

Day	AAR	t-count	Description
$t-10$	–0,016	–1,106	H_0 accepted
$t-9$	–0,008	–1,143	H_0 accepted
$t-8$	–0,003	–0,314	H_0 accepted
$t-7$	–0,002	–0,150	H_0 accepted
$t-6$	–0,017	–1,604	H_0 accepted
$t-5$	0,008	0,819	H_0 accepted
$t-4$	0,030	0,901	H_0 accepted
$t-3$	–0,002	–0,111	H_0 accepted
$t-2$	0,006	6,425	H_0 rejected
$t-1$	0,011	12,425	H_0 rejected
$t0$	–0,027	–1,034	H_0 accepted
$t+1$	0,008	0,534	H_0 accepted
$t+2$	–0,003	–1,134	H_0 accepted
$t+3$	–0,011	–0,815	H_0 accepted
$t+4$	0,002	0,570	H_0 accepted
$t+5$	–0,004	–0,473	H_0 accepted
$t+6$	0,011	3,024	H_0 accepted
$t+7$	0,012	1,182	H_0 accepted
$t+8$	0,003	0,320	H_0 accepted
$t+9$	0,003	0,540	H_0 accepted
$t+10$	0,006	0,418	H_0 accepted

of t_{table} (2.015) so that there is no abnormal return significant between 10 days before and 10 days after the announcement. This shows that H_0 is accepted and H_{1c} is rejected.

The second test is done by doing a different test to test the hypothesis that states that 'There are a differences in average abnormal returns after and before the announcement of mergers & acquisitions, CEO turnover, and employee lay-off (downsizing) in the financial distress company'. To test H_{2is} done by comparing the average abnormal return 10 days before and 10 days after the announcement of events of mergers & acquisitions, CEO Turnover, and employee lay-off (downsizing). The results of the normality test in Table 6 show that the data is normally distributed which is indicated by a probability value greater than the 0.05 level, then the data is normally distributed. Because the data is normally distributed, the will be used paired samples *t*-test *t*. Results of paired samples *t*-test can be seen in Table 7.

Based on Table 7, it can be seen that the significance value of before and after mergers & acquisitions is 0.722, CEO significance value Turnover before and after is 0.148 at 0.148, and the significance value of downsizing before and after is 0.143. In all announcements the restructuring strategy shows a significance level greater than 0.05,

Table 5: Abnormal return of CEO turnover.

Day	AAR	t-count	Description
$t-10$	0,041	0,781	H_0 accepted
$t-9$	–0,013	–0,837	H_0 accepted
$t-8$	–0,036	–1,081	H_0 accepted
$t-7$	0,046	0,962	H_0 accepted
$t-6$	–0,005	–0,687	H_0 accepted
$t-5$	0,007	–,266	H_0 accepted
$t-4$	0,010	1,475	H_0 accepted
$t-3$	–0,016	–0,887	H_0 accepted
$t-2$	–0,002	–0,180	H_0 accepted
$t-1$	–0,003	–0,174	H_0 accepted
$t0$	0,022	0,823	H_0 accepted
$t+1$	–0,015	–0,767	H_0 accepted
$t+2$	–0,025	–2,756	H_0 accepted
$t+3$	–0,024	–1,521	H_0 accepted
$t+4$	–0,004	–0,279	H_0 accepted
$t+5$	0,025	1,395	H_0 accepted
$t+6$	–0,002	–0,225	H_0 accepted
$t+7$	0,006	0,562	H_0 accepted
$t+8$	–0,016	–2,252	H_0 accepted
$t+9$	–0,020	–1,1739	H_0 accepted
$t+10$	–0,003	–0,358	H_0 accepted

thus accepting H_0 which states that there is no difference in average abnormal returns between before and after the event is announced

Based on Table 4, it can be seen that the market reacts to information related to the announcement of mergers & acquisitions quickly and not prolonged in absorbing abnormal returns. Investors tend to assume that the information contained therein is good news, in other words investors have the expectation that after a merger and acquisition the company will get better in the hope of being able to distribute higher dividends. Abnormal returns that are significantly positive are found 2 days before the announcement day can be caused by an information leak. The leakage of information in question is that the market knows the information about mergers & acquisitions before the event occurs.

As we know, in article 123 section (1) of Law Of The Republic Of Indonesia No.40 of 2007 concerning Limited Ability Companies, the company is obliged to prepare a merger plan which will then be approved by the board of commissioners of each company. The results of the proposed merger plan will be submitted at a general meeting of shareholders (GMS). Article 127 section (2) of Law Of The Republic Of Indonesia No.40 of 2007

Table 6: Abnormal return of employee lay-off.

Day	AAR	t-count	Description
$t-10$	0,009	1,237	H_0 accepted
$t-9$	0,022	1,481	H_0 accepted
$t-8$	0,008	0,274	H_0 accepted
$t-7$	0,002	0,051	H_0 accepted
$t-6$	–0,034	–1,114	H_0 accepted
$t-5$	0,036	1,540	H_0 accepted
$t-4$	0,019	0,682	H_0 accepted
$t-3$	0,016	1,809	H_0 accepted
$t-2$	–0,002	–0,131	H_0 accepted
$t-1$	–0,008	–0,417	H_0 accepted
$t0$	–0,007	–1,104	H_0 accepted
$t+1$	–0,016	–1,061	H_0 accepted
$t+2$	0,010	1,080	H_0 accepted
$t+3$	–0,015	–1,624	H_0 accepted
$t+4$	–0,011	–1,145	H_0 accepted
$t+5$	0,017	1,158	H_0 accepted
$t+6$	0,001	0,103	H_0 accepted
$t+7$	–0,009	–0,851	H_0 accepted
$t+8$	0,000	0,021	H_0 accepted
$t+9$	0,000	0,000	H_0 accepted
$t+10$	–0,012	0,085	H_0 accepted

Table 7: Result of paired samples *t*-test.

Variable	Significant	Description
Merger & Acquisitions Before-After	0.722	Not Significant
CEO Turnover Before & After	0.148	Not Significant
Employee Lay-Off Before-After	0.143	Not Significant

concerning Limited Ability Companies, the board of directors must announce at least one daily newspaper regarding the planned merger within a maximum period of 30 days before the GMS is held. The results of the merger must be announced by the company at least on one daily newspaper within the date of the merger & acquisition has been completed based on Article 133 section (3) of Law Of The Republic Of Indonesia No.40 of 2007 concerning Limited Ability Companies. This causes information about planned mergers and acquisitions to be received by investors before the event is announced, so that investors have prepared themselves before the day the event was announced.

The results of this study support research conducted by Kam, Citron, & Muradoglu, (2010) which shows that among 4 strategies observed mergers & acquisitions, asset sales, management restructuring, and debt restructuring investors react to merger and acquisition strategies and research conducted by Rani, Yadav, & Jain, (2013) and Gubbi et al, (2010) who found that there was a significant positive market reaction when the company announced mergers and acquisitions during the research observation period.

Based on Table 5, the CEO turnover announcement can be seen that the market shows a positive reaction but is not significant at the time the event is announced. The market reacts positively but insignificantly indicates that the event is accepted by investors as good news in the hope that a new CEO turnover can bring new changes and improve the company's financial performance in the future. The absence of a significant reaction by the market can be caused by an information leak. The leakage of information referred to in this case is that plans for CEO changes will be included in the agenda of the general meeting of shareholders (GMS) so that investors will first receive information before the event occurs.

Pursuant to Article 79 section (1) of Law Of The Republic Of Indonesia No.40 of 2007 concerning Limited Ability Companies, the board of commissioners is obliged to call a GMS to investors starting no more than 15 days before the date of the GMS request is executed accompanied by a registered letter of reason for the GMS. This is reinforced in Article 4 section (3) of the Financial Service Authority number 32/POJK.04/2014 of 2014 concerning plan dan holding of General meeting of shareholders of public companies, explaining that the GMS announcement must be held in 15 days before the date of the GMS request is announced and its need to be announced at least through 1 (one) national daily newspaper, the Indonesia Stock Exchange's official website, and the company's official website in Indonesian and foreign languages.

Based on Table 6 it can be seen that the market does not react to the announcement of employee lay-off (downsizing). The results of one sample *t*-test showed that abnormal returns on day 0 tended to be negative but not significant. This indicates that the market responds to events that occur as sources of information but not strong. An insignificant negative response is a form that investors value downsizing as bad news. Employee lay-off measures or in other words the termination of employment (PHK) taken by the company indicates that the company is in a state of financial difficulties and in an effort to overcome the situation. This information sends a signal to investors that the company will distribute less investment results than before so investors react negatively but insignificantly.

This result is in line with research conducted by Lin, Lee, & Gibbs (2008) and Elayan, Swales, Maris, & Scott (1998) that investors react negatively but are not statistically significant to the announcement of company employee dismissal. The dismissal of employees shows the risk of higher business failures and companies in poor operational performance which will certainly have an impact on future investment opportunities.

Based on Table 7 Paired Samples *T*-Test results show that there is no difference in average abnormal returns in the announcement of mergers & acquisitions, CEO turnover, and employee lay-off (downsizing). Leakage of information causes a response from the market, but the response that is not so strong results in the average abnormal return before and after the announcement of mergers & acquisitions, CEO turnover, and downsizing does not have a statistically significant difference. Fluctuations in average abnormal returns in the event period reflect uncertainty caused by various market surprises that can occur around the period of the announcement event. The absence of a prolonged market reaction can also be the cause of the absence of differences before and after the event because the information received by the market is relatively the same. In addition investors also assess based on the company's performance, not only from the events that occur around.

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