



# Contemporary Accounting Case Studies

---

Vol. 1, No. 1, September 2022

Article 3

## THE IMPACT OF RETRENCHMENT STRATEGY ON FINANCIAL PERFORMANCE DURING COVID-19 PANDEMIC: A CASE STUDY OF PT. XYZ

**Astuti Sri Sumarni**

Master of Accounting Program, Faculty of Economics and Business, Universitas Indonesia  
[astuti.sri@ui.ac.id](mailto:astuti.sri@ui.ac.id)

**Ancella Anitawati Hermawan**

Master of Accounting Program, Faculty of Economics and Business, Universitas Indonesia  
[ancella.anitawati@ui.ac.id](mailto:ancella.anitawati@ui.ac.id)

# THE IMPACT OF RETRENCHMENT STRATEGY ON FINANCIAL PERFORMANCE DURING COVID-19 PANDEMIC: A CASE STUDY OF PT. XYZ

*Astuti Sri Sumarni*<sup>1</sup>

*Ancella Anitawati Hermawan*<sup>2</sup>

Master of Accounting Program, Faculty of Economics and Business, Universitas  
Indonesia

## ABSTRACT

The study aims to evaluate the impact of retrenchment strategy in the form of flight capacity adjustments on airlines' financial performance, which experienced a decline due to the COVID-19 pandemic. This research is different from previous studies, which tend to be quantitative by using statistical data analysis to evaluate the impact and effectiveness of retrenchment to overcome the decline in performance. This study reveals the impact of the retrenchment strategy by using a case study method and a mixed-method approach. Qualitative data were analyzed using descriptive methods, while quantitative data were analyzed using simple time series analysis methods by comparing financial performance before and after the retrenchment. Financial performance was measured using the profitability ratio and cash flow ratio. The results of data analysis using descriptive and simple time-series methods show that the retrenchment strategy in the form of flight capacity adjustment effectively reduced direct costs. Specifically, it helped reduce operating expenses and restrain losses during the COVID-19 pandemic. However, this strategy has not optimally reduced operating expenses because it cannot directly reduce fixed costs that dominate the company's cost structure. Therefore, this strategy needs to be complemented by restructuring the cost of aircraft lease, streamlining the number of fleets, and optimizing cargo and charter services to more effectively reduce operating expenses and improve financial performance.

**Keywords:** capacity adjustment, financial performance, retrenchment.

---

<sup>1</sup> First author's email: [astuti.sri@ui.ac.id](mailto:astuti.sri@ui.ac.id)

<sup>2</sup> Second author's email: [ancella.anitawati@ui.ac.id](mailto:ancella.anitawati@ui.ac.id)

## 1. INTRODUCTION

The COVID-19 pandemic, which emerged in the Wuhan area of China at the end of 2019, has now grown into a global issue that can lead to an economic crisis and recession. Based on research conducted by Nicola et al. (2020) regarding the impact of COVID-19 on the economy in the primary, secondary, and tertiary industrial sectors, that hospitality, tourism, and aviation were the three industries that have received the most significant blow due to the policies taken by the government of every country to contain the spread of COVID-19. In its 2020 Annual Review, the International Air Transport Association also revealed that during the COVID-19 pandemic in 2020, Revenue Passenger Kilometers (RPKs) experienced a highly significant decrease compared to the previous year, which was around 98% for international flights and 87% for domestic flights. Overall, the number of flights in 2020 decreased from 38.9 million to 16.4 million, with a passenger load factor of around 65.5% (International Air Transport Association, 2020).

Based on the typology of crisis response strategies by Wenzel et al. (2020), which consists of retrenchment, persevering, innovating, and exiting, Albers & Rundshagen (2020) conducted research on the reactions of airlines in dealing with the impact of the COVID-19 pandemic by analyzing information about the airlines' action in Europe which was reported in daily bulletins. Albers & Rundshagen (2020) found that 75 out of 148 news informed airlines' retrenchment actions to deal with the impact of the COVID-19 pandemic. As an airline company, PT. XYZ is also doing the same thing because the COVID-19 pandemic has significantly caused the passenger load factor to drop and affected revenue achievement. This condition caused significant losses to the company because the revenue earned was lower than the operating expenses incurred. Consequently, the company has attempted to increase revenue from all lines of business, particularly cargo and charter transportation, while also deciding to cut operational expenses in a variety of ways. One of which is aligning flight operations with market demand through capacity adjustments. PT. XYZ tried to re-select the routes to reduce costs and reduce the number of losses.

This research is critical because retrenchment is currently used to maintain business continuity and improve financial performance during the COVID-19 pandemic, especially for the aviation industry, as shown by Albers & Rundshagen (2020). One form of retrenchment strategy carried out by airlines is adjusting capacity to air transport demand. The capacity adjustment was one of the essential strategies for PT. XYZ to reduce costs during the COVID-19

pandemic. By reducing expenses, companies can restrain the decline in financial performance and reduce the potential for more significant losses during the COVID-19 pandemic. Therefore, this research tries to evaluate the impact of capacity adjustment as the retrenchment strategy on financial performance during the COVID-19 pandemic in 2020 until June 30, 2021, whether the retrenchment strategy in the form of capacity adjustment had a large enough impact on improving financial performance or not.

This study evaluates the impact of the retrenchment strategy by using a case study method and a mixed-method approach that combine qualitative and quantitative methods to get a complete picture. They allow not only to measure changes in financial performance before and after retrenchment using financial ratios but also to explore information about the background, considerations, and actions taken by PT. XYZ related to capacity adjustment. The results of this research analysis are expected to explain the benefits of the retrenchment strategy and why it should be considered one of the options to improve financial performance in times of crisis, especially for airlines.

## **2. LITERATURE REVIEW**

### **2.1. RETRENCHMENT**

Heerkens (2005) explained that retrenchment strategy is one of the grand strategy categories, such as growth strategy and stability strategy, which companies can choose by considering financial conditions, competitive position, the potential for future growth, and country economic conditions. According to Heerkens (2005), retrenchment strategies are usually carried out by companies experiencing a decline due to declining demand for the company's products, economic slowdown, or other management problems that cause companies to be in difficult conditions.

According to David & David (2017), retrenchment is one of the companies' defensive strategies by lowering costs and assets to return the level of sales and profits that are experiencing a decline to their original position by strengthening their essential competencies. David & David (2017) argue that retrenchment can be a very effective strategy if carried out under five conditions. One of which is when a company is experiencing problems such as inefficiency, low profitability, poor employee morale, and when it is facing pressure to improve the performance of its shareholders. The retrenchment strategy encourages companies to work effectively and efficiently using limited resources amid various pressures (David & David, 2017).

Retrenchment is divided into two types; cost retrenchment and asset retrenchment (Robbin & Pearce, 1992). Cost retrenchment is a retrenchment action that emphasizes reducing company costs, while asset retrenchment emphasizes reducing assets that do not have good performance. According to Robbins & Pearce (1992), retrenchment has four levels:

- a. Not doing asset retrenchment or cost retrenchment.
- b. Performing asset retrenchment but not accompanied by cost retrenchment.
- c. Conducting cost retrenchment but not accompanied by asset retrenchment, and
- d. Performing asset retrenchment as well as cost retrenchment.

According to Morrow et al. (2004), the impact of retrenchment on performance is not always the same between one company and another because each industry phase will have varied business competition dynamics. In addition, the internal conditions of each company can also cause differences in the impact of retrenchment on performance even though the company is in the same industry. Based on their research, Morrow et al. (2004) concluded three things as below:

- a. In a growing industry, asset retrenchment positively affects company performance, while cost retrenchment does not affect performance.
- b. In industries experiencing a decline, cost retrenchment positively affects performance, while asset retrenchment hurts performance.
- c. In mature industries, both cost retrenchment and asset retrenchment positively influence company performance.

Tangpong et al. (2015) found that retrenchment will produce more optimal results if conducted early when the company begins to experience a significant decline in financial performance. According to Tangpong et al. (2015), companies that take retrenchment actions early on and encourage self-reinforcement will tend to experience success in restoring performance and achieving turnaround compared to companies that take retrenchment actions late.

For companies facing the threat of bankruptcy, Rico & Puig (2021), in their research, found five things that are:

- a. Cost retrenchment positively affects performance
- b. Cost retrenchment is quite effective in maintaining business continuity and restoring company performance.
- c. Successful turnaround companies tend to carry out cost retrenchment actions intensively compared to companies that succeed in maintaining business continuity but cannot restore performance like the one they had before experiencing a decline.

- d. Another factor influencing the company's success in maintaining business continuity and restoring performance is stakeholder support.
- e. Stakeholder support for policies or steps taken by the company to stabilize the decline will increase the probability of a successful turnaround for companies experiencing bankruptcy.

## 2.2. PRODUCTION CAPACITY

The main activity of airlines is to provide air transportation services. According to PM 35, year 2021 regarding Air Transport Operation (*Penyelenggaraan Angkutan Udara*), these include an activity using aircraft to transport passengers, cargo, and/or post for one or more trips from one airport to another or several airports (Ministry of Transportation, 2021). Therefore, the definition of an airline's production capacity can refer to the definition of transport capacity contained in PM 35 year 2021 regarding Air Transport Operation (*Penyelenggaraan Angkutan Udara*), that is, the seating capacity and cargo capacity provided by the airline for every week and every year (Ministry of Transportation, 2021). The capacity adjustment automatically affects airlines' operating performance, which can be assessed using specific measures and ratios presented in Table 1.

**Table 1. Aviation measures and ratio**

Aviation Measure and Ratio	Formula
Revenue Passenger Kilometers (RPK)	Number of passengers revenue per aircraft x distance traveled in kilometers
Available Seat Kilometer (ASK)	Number of seats per aircraft x distance traveled by aircraft in kilometers
Load factor	Number of passengers/number of seats per aircraft

Source: Selçuk et al. (2016)

## 2.3. FINANCIAL PERFORMANCE

Financial performance is the company's financial achievements for a certain period, which will reflect the health level of a company (Winarni & Sugiyarso, 2005 in Ningtias et al., 2014). Financial performance can be measured through financial analysis, which has three main areas: profitability analysis, risk analysis, and analysis of sources and uses of funds (Subramanyam, 2017).

### 2.3.1 PROFITABILITY ANALYSIS

A company's profitability can be measured using several ratios: Net Profit Margin, Operating Profit Margin, and Return on Total Assets (ROA). These

ratios describe the effectiveness of the company's operations (Brigham & Ehrhardt, 2017). Net Profit Margin shows the amount of profit earned from each dollar of sales, Operating Profit Margin shows the company's operating performance before calculating interest expense (Brigham & Ehrhardt, 2017), while Return on Total Assets (ROA) shows the amount of profit obtained from each dollar of assets (Ross et al., 2013).

According to Brigham & Ehrhardt (2017, p 114-116) and Ross et al. (2013, p 54-55), Net Profit Margin, Operating Profit Margin, and Return on Total Assets (ROA) can be calculated using the following formula:

$$\text{Net Profit Margin} = \frac{\text{Net Income}}{\text{Sales}}$$

$$\text{Operating Profit Margin} = \frac{\text{EBIT}}{\text{Sales}}$$

$$\text{Return on Total Asset} = \frac{\text{Net Income}}{\text{Total Asset}}$$

### 2.3.2 CASH FLOW ANALYSIS

Generally, companies experiencing financial distress do not have enough operating cash flow to meet maturing obligations (Ross et al., 2013), and according to Fawzi et al. (2015), several cash flow ratios such as CFFO/TL, CFFO+I/I, CFFI/TL, and CFFO/TR help monitor the condition of companies experiencing financial distress.

Fawzi et al. (2015) research results showed that CFFO/TL, CFFO+I/I, and CFFI/TL negatively correlate with financial distress. Companies with high CFFO/TL, CFFO+I/I, and CFFI/TL ratios have a low potential for financial distress because they can generate sufficient cash to meet all obligations. In contrast, CFFO/TR and CFFO/LTL have a strong positive correlation with financial distress, so the companies with high CFFO/TR and CFFO/LTL have great potential to experience financial distress.

**Table 2. Cash flow ratio**

Description	Acronym	Measurement Function
Cash flow from operating activities plus interest expense to interest expense	CFFO+I/I	Measuring the company's ability to cover interest payments on a debt.
Cash flow from operating activities to total liabilities	CFFO/TL	Measuring the company's ability to cover the total debt with cash held.
Cash flow from operating activities to long term liabilities	CFFO/LTL	Measuring the adequacy of cash to pay long-term debt

Cash flow from investing activities to total liabilities	CFFI/TL	Measuring cash generated from investing activities to meet long-term obligations.
Cash flow from operating activities to total revenue	CFFO/TR	Measuring the company's ability to convert revenue into cash.

Source: Fawzi et al. (2015)

### 3. RESEARCH METHODS

This study used a case study method to comprehend the extent to which the retrenchment plan impacted the financial performance of PT. XYZ and conduct an in-depth examination of contemporary phenomena faced by the company, as conveyed by Yin (2018). In evaluating the impact of retrenchment actions on the company's financial performance, this study used a mixed-method approach that combines qualitative and quantitative approaches (Johnson & Onwuegbuzie, 2004 in Williams, 2007). A *quantitative approach* is an approach that uses numerical data to answer research questions (Williams, 2007), while the qualitative approach is an approach that uses participants' perspectives to understand organizations or special events (Gunawan, 2013).

A qualitative approach was conducted in seven steps, referring to the research steps proposed by Sudjana (2001) in Gunawan (2013), consisting of problem identification, problem limitation, research focus determination, data collection, data processing and meaning, theory emergence, and research results reporting. The theory emergence referred to in this study is the emergence conclusion from the research results. The quantitative approach was carried out by making working papers for calculating financial ratios and analyzing cash flows to measure the company's financial performance before and after the company implements a retrenchment strategy in the form of capacity adjustments.

This study used primary and secondary data to evaluate the impact of the retrenchment strategy in the form of capacity adjustments made by the company from 2020 to June 2021 on financial performance. Primary data were obtained using semi-structured interview techniques with at least a manager-level respondent through video conference media applications and question-and-answer via email. Secondary data were obtained using documentation techniques.

This study used the descriptive analysis to explain the background, motivation, and implementation of the retrenchment strategy of PT. XYZ to improve financial performance. In addition, this study also used a simple time



series analysis to analyze the impact of the retrenchment strategy by comparing the financial performance before and after the company performs a retrenchment as measured by the profitability ratio and the cash flow ratio. The results of financial performance analysis will complement the results of qualitative data analysis.

#### **4. ORGANIZATION PROFILE**

PT. XYZ is a commercial air transportation company that offers several air transportation service products such as passenger scheduled flights, charter flights, and cargo flights. Before the COVID-19 pandemic, PT. XYZ had an excellent operating performance, but since the COVID-19 pandemic, its operating performance has decreased. The company's load factor has decreased significantly to 44.21% due to a significant decrease in air passenger demand. As a result, it causes revenues to drop significantly until the company suffers significant losses.

#### **5. RESULT AND DISCUSSION**

Based on air transport statistics for the last six years, it was observed that the number of aircraft passengers continued to increase from 2015 to 2018 but began to decline in 2019 and reached its lowest point in 2020 when the COVID-19 pandemic occurred. PT. XYZ's passengers in 2020 decreased by 73% from 2019 due to the COVID-19 pandemic, thus affecting the financial performance of companies whose cost structure was dominated by fixed costs. Based on interview, the imbalance in supply and demand caused a significant increase in costs, so losses became an unavoidable consequence. To deal with this, companies must be agile, resilient, and adaptive in seeing opportunities to create momentum or turning points when experiencing demand decline.

Retrenchment conducted by PT. XYZ aims to reduce operational costs whose structure is dominated by fixed costs. By adjusting the capacity to the demand and supply of air transport services during the COVID-19 pandemic, the company also hoped to reduce fixed and non-operational costs. Capacity adjustments during the COVID-19 pandemic were carried out by closing routes or adjusting the flight routes' frequency by considering flight routes' performance and demand and supply of air transport services. The company would re-select flight routes carefully. Only routes that performed optimally and achieved a certain contribution margin level would be operated. The

capacity adjustment caused the company to operate fewer aircraft compared to the previous year.

During the COVID-19 pandemic in 2020–2021, PT. XYZ had adjusted the capacity of more than 50% of the flight routes operated by the company. PT. XYZ stopped operational activities for routes that could not reach the contribution margin desired by the company, but some were maintained by considering market conditions. The number of these routes was strictly limited, and the company adjusted the frequency accordingly.

In general, the company's re-selection of flight routes was appropriate. PT. XYZ has made maximum efforts to avoid routes that could cause losses. Although some routes have not reached the predetermined contribution margin level, these routes can still cover direct costs and crew costs. Therefore, it would be better to keep them operating because they would bring in cash inflow for the company and help the company maintain its competitiveness.

### 5.1. PROFITABILITY ANALYSIS

Profitability ratio calculation results for 2019, 2020, and June 30, 2021, in Table 3, show the profitability of PT. XYZ is very low, especially during the COVID-19 pandemic. Most of the profitability ratios of PT. XYZ has a negative value. It means that the company did not record a profit from operations even before considering interest expenses, especially for the period 2020 and the period ending June 30, 2021.

**Table 3. Profitability ratio**

Ratio	2019	2020	June 30, 2021
Net Profit Margin	-0,97%	-165,96%	-129,40%
Operating Profit Margin	2,10%	-147,63%	-100,94%
Return on Total Asset	-1,00%	-22,95%	-8,91%

Source: Calculation results based on consolidated financial report data

The COVID-19 pandemic caused the company to suffer significant losses compared to 2019. In 2020, the total loss for the year of PT. XYZ increased compared to 2019 and reached USD 2.4 billion, as shown in Figure 1.

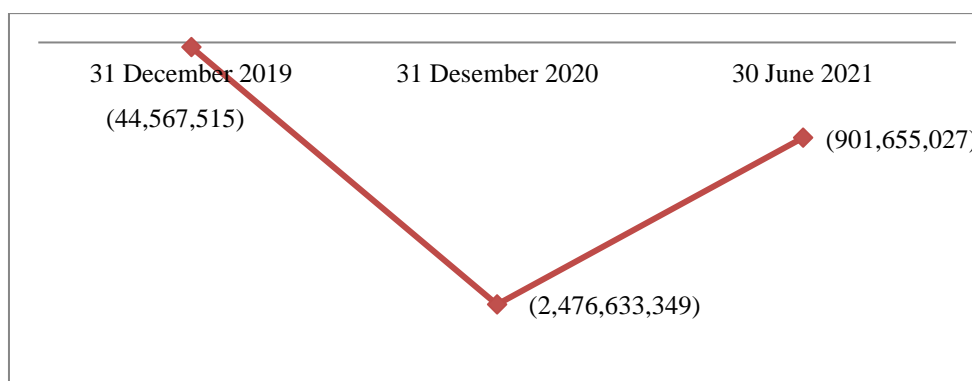


Figure 1. Loss for the year 2019 – June 30, 2021, reprocessed.

Source: Consolidated financial statement

The decrease in the number of passengers during the COVID-19 pandemic, as listed in Table 4, caused the company's revenue to drop significantly because most of the company's largest source of income came from ticket sales to passengers. Based on the audited 2020 financial statements, the company's total revenue decreased significantly from USD 4.5 billion to USD 1.4 billion or decreased by 67% compared to 2019.

The decrease in the number of passengers caused the company's operations to be very ineffective should it maintains its capacity before the COVID-19 pandemic. The operational costs incurred will be very high while the revenue received is small because the aircraft seat load factor in 2020 only reached 44.21%. This seat load factor included from January 2020 to March 2020. If the seat load factor in the three months was not taken into account, PT. XYZ's average seat load factor in 2020 would only be around 26.5%. In 2021, the seat load factor dropped to 25.77%, so the company's decision to make capacity adjustments was the right one. The capacity adjustment encouraged the company to focus on routes that could generate profits and seek to increase the seat load factor to increase the company's revenue.

The strategy of capacity adjustment during 2020-2021 caused the number of round trip routes of PT. XYZ becomes less than 2019. The decrease in the number of routes certainly caused a significant decrease in the achievement of production, as shown in Table 4. The capacity adjustment strategy caused the availability of air transportation services to decrease, as reflected by the decrease in Available Seat Kilometers (ASK), a measure of aircraft passenger capacity. Available Seat Kilometers (ASK) decreased from 43,922,189,000 in 2019 to 17,932,774,000 in 2020.

**Table 4. Air transportation production**

Indicator / Measure	2019	2020	January-June 30, 2021
Passenger carried	19,670,604	5,313,600	1,910,475
ASK (000)	43,922,189	17,943,152	8,211,800
RPK (000)	32,505,793	7,932,774	2,198,518
Load Factor (%)	74.01	44.21	25.77
RRPK (USD)	0.081	0.084	0.096
Cargo carried (Ton)	269,816	175,400	112,048

Source: Historical operational data

The capacity adjustment caused the number of round trip routes and the company's annual production performance to have decreased. However, viewed from the monthly operational data, it can be seen that when the company carried out a capacity adjustment strategy, the seat load factor level of the company began to increase. The seat load factor, which previously decreased due to COVID-19 to reach 11.3% in May 2020, began to creep up and even reached 36.7% in November 2020. Increased seat load factor had a positive impact on the company. It increased the revenue from passengers, as shown in Table 5.

**Table 5. Revenue 2020 – June 30, 2021 reprocessed**

In USD

Revenue	2020				2021	
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2
Schedule airlines service						
Passenger	584,218,235	46,558,717	10,741,819	192,528,779	183,350,710	191,940,630
Cargo and document	70,310,796	49,170,612	61,289,372	90,853,498	94,874,045	86,368,668
Sub total	654,529,031	95,729,329	167,031,191	283,382,277	278,224,755	278,309,298
Non-schedule airlines service						
Charter	5,317,616	16,229,950	25,379,837	30,314,857	22,782,314	18,856,799
Sub total	5,317,616	16,229,950	25,379,837	30,314,857	22,782,314	18,856,799
Other	108,276,835	37,197,535	29,080,954	39,861,687	52,063,475	46,566,720
Total revenue	768,123,482	149,156,814	221,491,982	353,558,821	353,070,544	343,732,817

Source: Quarterly consolidated financial statement

Apart from passengers, the increase in revenue also came from cargo. Moreover, Table 5 shows that cargo revenue starting in the fourth quarter of

2020 is above cargo revenue in the first quarter of 2020, although with fewer routes and flight frequencies than the first quarter of 2020. It means that cargo transportation has great potential to be developed to generate revenue for the company during the COVID-19 pandemic when demand for air transportation passengers is decreasing.

Based on Table 5, the increase in revenue also came from charter flights. During the COVID-19 pandemic, the company tried to optimize charter revenue by creating short-term and long-term partnerships. Charter flights were intended for both passengers and cargo.

In addition to impacting revenue achievement, the results of an analysis of quarterly financial reports show that capacity adjustments positively impact the company by reducing the number of operating expenses during the COVID-19 pandemic. Table 6 shows the operating expenses of PT. XYZ in the second quarter of 2020 decreased by 26% from the first quarter of 2020 due to the decline in direct costs, especially fuel. Fuel costs and other direct cost components decreased significantly due to adjusting the number of routes and flight frequency.

**Table 6. Operating expenses 2020 – June 30, 2021 reprocessed**

In USD

Operating Expenses	2020				2021	
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2
Flight operation	525,650,528	419,930,377	356,527,828	351,632,481	392,259,445	377,098,502
Maintenance and repair	128,526,468	95,894,225	113,032,111	463,105,569	159,738,688	153,795,172
Ticketing, sales and promotion	75,623,739	16,158,980	15,340,349	22,111,912	22,930,182	22,299,788
General and administration	72,458,321	106,395,148	49,389,528	122,010,353	46,259,656	48,399,854
User charge and station	71,264,122	26,204,594	32,315,724	55,189,785	44,066,676	42,727,275
Passenger service	56,025,300	22,884,460	24,412,833	29,957,134	22,228,943	23,061,016
Hotel operation	8,688,022	4,522,713	5,286,903	4,918,749	5,701,387	5,524,998
Transportation operation	5,095,432	3,357,298	3,304,376	8,448,177	4,115,772	3,430,914
Network operation	2,375,818	2,145,005	2,099,563	1,542,718	2,877,002	1,825,045
<b>Total</b>	<b>945,707,750</b>	<b>697,492,800</b>	<b>601,709,215</b>	<b>1,058,916,878</b>	<b>702,177,751</b>	<b>678,162,564</b>

Source: Quarterly consolidated financial statement

Capacity adjustments reduced the number of company losses through reduced operating costs. The financial statements show the average comprehensive loss per

month of PT. XYZ in the third quarter of 2020 to the second quarter of 2021 tends to be lower than the average comprehensive loss per month in the second quarter of 2020, as shown in Figure 2. However, in the fourth quarter of 2020, the average comprehensive loss per month experienced a significant increase due to the implementation of PSAK 73, which has been effective as of January 1, 2020.

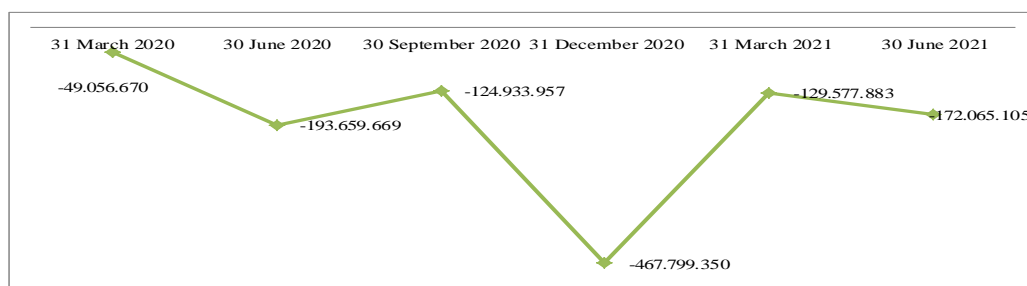


Figure 2. Average comprehensive loss 2020 – June 30, 2021 reprocessed.

Source: Quarterly consolidated financial statement

The decrease in the number of losses compared to the second quarter of 2020 shows that the retrenchment strategy in the form of capacity adjustments has increased the efficiency and effectiveness of the company's operations. It is consistent with the opinion of David & David (2017) that the retrenchment strategy encourages companies to work effectively and efficiently by using limited resources amid various pressures faced by the company. It is also consistent with the research results by Tangpong et al. (2015) that early implementation of retrenchment is very beneficial for restoring performance and achieving a turnaround because retrenchment encourages the company to do self-reinforcement. Companies are encouraged to focus on strengthening their core competencies to become more efficient and effective (David & David, 2017).

Based on Table 6, flight operating expenses were the most significant operating expenses. Flight operating expenses in 2020 had the two most significant components: depreciation and fuel expense, as shown in Figure 3. The capacity adjustment successfully reduced flight operating expenses through fuel consumption savings. However, it did not appear to be successful enough to reduce the depreciation expense, as shown in Table 7.

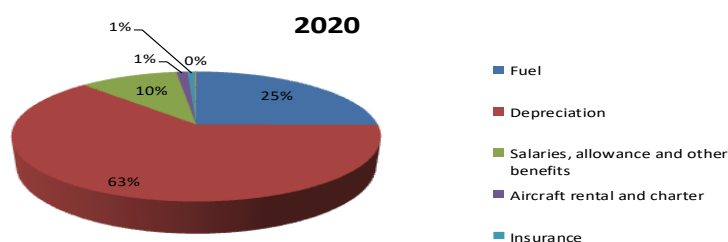


Figure 3. Flight operation expenses 2020 reprocessed.

Source: Consolidated financial statement

**Table 7. Fuel, aircraft rental, and depreciation**

Flight Operation Expenses	2019	2020	January 1, 2021 - June 30, 2021
Fuel	1,189,532,507	414,784,591	228,524,716
Depreciation	41,978,746	1,034,074,216	448,790,973
Aircraft rental and charter	1,110,195,916	19,052,466	319,836

Source: Consolidated financial statement

The retrenchment strategy in the form of capacity adjustment effectively reduces variables cost such as direct costs but does not effectively reduce fixed costs such as depreciation. However, the capacity adjustment opens an opportunity to adjust the number of fleet needs to realize the aircraft lease restructuring plan and downsize the fleet to reduce fixed costs and improve the company's cost structure.

## 5.2. CASH FLOW ANALYSIS

According to Fawzi et al. (2015), cash flow ratios help monitor the condition of companies experiencing a decline in financial performance or financial distress (Fawzi et al. 2015). Calculation of the cash flow ratio of PT. XYZ year 2019 to June 30, 2021, can be seen in Table 8.

**Table 8. Cash flow ratio**

Ratio	2019	2020	January 1, 2021 - June 30, 2021
CFFO+I/I	466,53%	119,94%	119%
CFFO/TL	13,25%	0,87%	0,44%
CFFO/LTL	107,52%	1,31%	0,71%
CFFI/TL	-8,20%	-0,44%	-1,57%
CFFO/TR	11,22%	7,40%	8,08%

Source: Calculation result based on consolidated financial statement

The CFFO+I/I, CFFO/TL, and CFFI/TL ratios calculation shown in Table 8 indicates that the company's solvency has decreased. The cash available to pay the company's obligations was decreasing, and the potential for the company to experience financial distress was enormous, although CFFI/TL increased compared to 2019. The increase in CFFI/TL is not enough to indicate that the company's solvency has improved because the CFFI/TL ratio is still negative. Therefore, the company's solvency is still low based on the ratio value.

In addition to CFFO+I/I, CFFO/TL, and CFFI/TL, CFFO/LTL is also a solvency ratio. The research results by Fawzi et al. (2015) show that CFFO/LTL has a positive correlation with financial distress, which means that the higher the ratio value, the greater the potential for the company to experience financial distress. The ratio calculation results show that the value of CFFO/LTL decreased and became very low in 2021, which was 0.71%. However, this also does not mean that the potential for companies to experience financial distress is low, as the results of research by Fawzi et al. (2015). It shows a decrease in the company's solvency because the cash generated from operating activities was much smaller than its total long-term liabilities.

CFFO/TR is a profitability ratio that measures the company's performance in operations. The value of CFFO/TR decreased from 11.22% in 2019 to 7.40% in 2020 but then increased in the second quarter of 2021 to 8.08%. The CFFO/TR ratio increase indicates a performance improvement compared to 2020, and there was more revenue that could be converted into cash. It is inconsistent with Fawzi et al.'s (2015) research result that states CFFO/TR positively correlates with financial distress. Although the CFFO/TR value increased compared to 2020, this does not indicate that the company has been out of financial trouble because the other four solvency ratios still indicate that the company is still in an unhealthy condition until the second quarter of 2021.

Similar to solvency, the results of analysis through simulation of cash availability calculations by comparing trade receivables with trade payables that have matured in the same period with some assumptions found that the company's liquidity for the period 2020 to June 30, 2021, was low because the balance of trade receivables was not sufficient to pay off trade payable. It is consistent with Ross et al.'s (2013) opinion, which states that generally, companies experiencing financial distress do not have enough operating cash flow to meet maturing obligations. Therefore, the company needs to re-sort trade debts that have matured for payment and re-negotiate the debt payments while looking for alternative funding sources for debt settlement and increasing revenue through cargo and charter services.



Debt restructuring negotiations will allow the company to rearrange debt repayment priorities so that the company can gradually resolve liquidity problems and maintain positive operating cash. Table 9 shows efforts to delay debt payments made by PT. XYZ. It succeeded in reducing the cash deficit from operating activities, and in the second quarter of 2021, cash flow from operating activities began to appear in a surplus.

**Table 9. Cash receipt and disbursement from operating activities reprocessed**

Operating Cash Flow	2020				2021	
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2
Cash receipt	750,659	137,087	174,159	674,193	356,985	364,528
Cash disbursement	480,729	275,842	194,549	674,606	391,754	273,429
Surplus/(Defisit)	269,930	(138,754)	(20,389)	(412)	(34,768)	91,099

Source: Quarterly consolidated financial statement

In contrast to operating activities which experienced a deficit, net cash from financing activities based on the consolidated cash flow statement experienced a surplus from the second quarter of 2020 to the first quarter of 2021 due to an increase in receipt of short-term and long-term loans, while the number of cash disbursements decreased as shown in Table 10. It indicates that the company was also trying to defer short-term and long-term loan payments to creditors such as banks and aircraft lessors.

**Table 10. Net cash flow from funding activities reprocessed**

Funding Cash Flow	2020				2021	
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2
Surplus/(Deficit)	(355,206)	145,370	19,112	39,790	100,905	(74,354)

Source: Quarterly consolidated financial statement

The results of the analysis above indicate that during the COVID-19 pandemic, the company was under liquidity and solvency pressures, thus encouraging the company to make various efforts to maintain increasingly limited cash flows. Retrenchment in the form of capacity adjustments plays a role in reducing operating expenses, which will potentially increase the amount of debt during the COVID-19 pandemic.

## **6. CONCLUSION AND RECOMMENDATION**

### **6.1. CONCLUSION**

An imbalance between supply and demand for air transportation during the COVID-19 pandemic which resulted in a decline in financial performance, drove the company to implement a retrenchment strategy in the form of capacity adjustment to reduce direct cost, fixed costs and non-operational costs. PT XYZ carried out capacity adjustment by considering the demand factor of air transportation and the route performance, which were reflected in the contribution margin.

Based on the financial performance analysis, it can be concluded that the retrenchment strategy effectively reduces direct costs. The reduction in direct costs helps reduce operating expenses and restrain the potential for more significant losses during the COVID-19 pandemic. However, this strategy has not been able to reduce operating expenses optimally because flight capacity adjustments cannot directly reduce fixed costs that dominate the company's cost structure. Therefore, this strategy needs to be complemented by structuring aircraft rental costs and streamlining the number of fleets. Implementing this strategy together will be much more effective in reducing operational costs, increasing profitability, and improving financial performance, mainly if supported by optimizing cargo and charter services to maximize revenue potential and create positive cash flow.

### **6.2. RECOMMENDATION**

A retrenchment strategy in the form of adjustments will be more optimal in increasing profitability and financial performance if it is complemented by restructuring aircraft leases, streamlining fleets, and optimizing cargo and charter services to increase revenue and debt restructuring to create positive cash flows. However, to carry out all these strategies amid limitations is not easy. Therefore, it is crucial for PT. XYZ to establish good relationships and gain support from all stakeholders, be it shareholders, banks, lessors, regulators, and other stakeholders, by aligning its expectations with stakeholders. The research results by Rico & Puig (2021) show that stakeholder support is beneficial for maintaining business continuity for every company experiencing the threat of bankruptcy.

### 6.3. LIMITATION

This study has several limitations, including:

- This research was conducted in a short observation time to see the impact of the retrenchment strategy on the company's financial performance. However, longer observation times may have different results. Therefore, it is recommended that further researchers extend the observation time to get maximum results.
- The measurement of financial performance was based on the consolidated financial statements of PT. XYZ with its subsidiaries, so that it cannot accurately describe the specific performance achievements for PT. XYZ, so the results of this study should be interpreted more carefully by the readers.
- Due to limited data and information regarding fleet restructuring and debt restructuring to lessors, this study only focuses on cost retrenchment without asset retrenchment. Hence, cash flow analysis can only be carried out for operational activities and cannot be continued for investment or financing activities.

### ACKNOWLEDGEMENT

The authors would like to thank all respondents and gratefully acknowledge the funding provided by Lembaga Pengelola Dana Pendidikan.

### REFERENCES

- Albers, S., & Rundshagen, V. (2020). European airlines' strategic responses to the COVID-19 pandemic (January-May, 2020). *Journal of Air Transport Management*, 87(July), 101863. <https://doi.org/10.1016/j.jairtraman.2020.101863>
- Brigham, E. F., & Ehrhardt, M. C. (2017). *Financial Management Theory and Practice* (15e ed.). Cengage Learning.
- David, F. R., & David, F. R. (2017). *Strategic Management: A Competitive Advantage Approach, Concept, Global Edition* (Sixteenth). Pearson Education Limited.
- Fawzi, N. S., Kamaluddin, A., & Sanusi, Z. M. (2015). Monitoring Distressed Companies through Cash Flow Analysis. *Procedia Economics and Finance*, 28(April), 136–144. [https://doi.org/10.1016/s2212-5671\(15\)01092-8](https://doi.org/10.1016/s2212-5671(15)01092-8)
- Gunawan, I. (2013). *Metode penelitian kualitatif: teori dan praktik* (Edisi 1). PT.

Bumi Aksara.

- Heerkens. (2005). Fundamentals of Organizational Management. In *Fundamentals of Organization* (pp. 43–74).
- International Air Transport Association. (2020). International Air Transport Association Annual Review 2020. In *76th Annual General Meeting*. [https://online.fliphtml5.com/uzvev/hfuf/?\\_cldee=MTQzNTg1NDk5NUBxcS5jb20%3D&recipientid=contact-3499a7a1cc88e711810be0071b6ea591-89269a2310ba4125810decaa62f1de8b&esid=ee9bde04-ffbc-ea11-a812-000d3a49dd7d#p=1](https://online.fliphtml5.com/uzvev/hfuf/?_cldee=MTQzNTg1NDk5NUBxcS5jb20%3D&recipientid=contact-3499a7a1cc88e711810be0071b6ea591-89269a2310ba4125810decaa62f1de8b&esid=ee9bde04-ffbc-ea11-a812-000d3a49dd7d#p=1)
- Ministry of Transportation (2021). *PM 35 Tahun 2021 Tentang Penyelenggaraan Angkutan Udara*. Jakarta: Government of Republic of Indonesia.
- 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>
- Nicola, M., Alsafi, Z., Sohrabi, C., Kerwan, A., Al-Jabir, A., Iosifidis, C., Agha, M., & Agha, R. (2020). The socio-economic implications of the coronavirus pandemic (COVID-19): A review. *International Journal of Surgery*, 78(March), 185–193. <https://doi.org/10.1016/j.ijssu.2020.04.018>
- Ningtias, Yuni, I., Saifi, Muhammad, & Achmad, H. (2014). Analisis Perbandingan Antara Rasio Keuangan dan Metode Economic Value Added (EVA) sebagai Pengukuran Kinerja Keuangan Perusahaan. *Jurnal Administrasi Bisnis*, 9(2), 2.
- Rico, M., & Puig, F. (2021). Successful turnarounds in bankrupt firms? Assessing retrenchment in the most severe form of crisis. *BRQ Business Research Quarterly*, 24(2), 114–128. <https://doi.org/10.1177/2340944421994117>
- 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>
- Ross, S. A., Westerfield, R. W., & Jaffe, J. F. (2013). *Corporate Finance* (10th ed.). McGraw-Hill/Irwin.
- Selçuk, D. A., Bayram, T., & Hatem, Y. (2016). Analyzing The Relationship Between Profitability and Traditional Ratios: Major Airline Companies Sample (Karlılık ve Geleneksel Oranlar Arasındaki İlişkinin İncelenmesi: Büyük Havayolu Şirketleri Örneği) 1 Ahmet Selçuk DİZKIRICI. *Journal of Accounting, Finance and Auditing Studies*, 2(June), 96–114.
- Subramanyam, K. R. (2017). *Analisis Laporan Keuangan* (11th ed.). McGraw-Hill Education (Asia) dan Salemba Empat.
- Tangpong, C., Abebe, M., & Li, Z. (2015). A Temporal Approach to Retrenchment and Successful Turnaround in Declining Firms. *Journal of Management Studies*, 52(5), 647–677. <https://doi.org/10.1111/joms.12131>
- Wenzel, M., Stanske, S., & Lieberman, M. B. (2020). Strategic responses to crisis.

*Strategic Management Journal*, 42(2), O16–O27.  
<https://doi.org/10.1002/smj.3161>

Williams, C. (2007). Research methods. *Journal of Business & Economic Research*, 5(3), 65–72. <https://doi.org/10.1017/9781108656184.003>

Yin, R. K. (2018). *Case Study Research and Application Design and Method* (Sixth Edition). Sage Publication, Inc.