

## Corporate Immunity in the TUNA Era: The Role of Digitalization in Corporate Turnaround Strategies

Apriana Rahmawati<sup>1\*</sup>, Rizky Prasetya<sup>2</sup>, Alif Faruqi Febri Yanto<sup>3</sup>, Nabilla Carissa Ratnadewati<sup>4</sup>, Venus C. Ibarra<sup>5</sup>

<sup>1,3,4</sup>Accounting, Faculty of Economic and Business, State University of Malang, Indonesia

<sup>2</sup>Accounting, State Polytechnic of Malang, Indonesia

<sup>5</sup>Accounting, Ateneo Graduate School of Business, Philippines

[aprianarhmwt.feb@um.ac.id](mailto:aprianarhmwt.feb@um.ac.id)\*

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### ABSTRACT

Since the COVID-19 pandemic, which triggered the economic contraction in Indonesia and forced companies to build corporate immunity, the ability to withstand external pressures, maintain core functions, and recover amidst conditions of Turbulence, Uncertainty, Novelty, and Ambiguity (TUNA era) has become crucial. Turnaround strategy has become an essential approach, focusing on asset retrenchment and cost retrenchment as primary steps. Digitalization serves as an important catalyst in supporting the Knowledge-Based View (KBV) in the current era, enabling companies to manage, store, and access knowledge more quickly and efficiently. This study aims to explore how digitalization, within the KBV framework, can enhance the effectiveness of turnaround strategies in the TUNA era. Using a quantitative approach, this study analyzes data from 13 companies under the supervision of the Indonesia Stock Exchange (IDX) in 2020, which remained listed until 2024. The results show that digitalization strengthens the positive relationship between retrenchment strategy and turnaround performance, particularly in companies that have internally adopted digital technologies. These findings highlight the importance of digital integration in corporate recovery strategies and contribute to the literature on the role of digitalization in turnaround efforts.

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## INTRODUCTION

The COVID-19 pandemic, which caused a 2.07% economic contraction in Indonesia in 2020, forced companies to build corporate immunity—defined as the ability to absorb external pressures, maintain the continuity of core functions, and recover amid conditions of Turbulence, Uncertainty, Novelty, and Ambiguity (the TUNA era)—through the application of dynamic capabilities based on the resource-based view. This includes the processes of early sensing of disruption signals (sensing), effectively organizing and utilizing resources (seizing), and reconfiguring routines and assets to be more flexible and adaptive (reconfiguring). To restore performance and adapt to the rapidly changing business landscape, many companies have also implemented turnaround measures such as operational restructuring, strengthening cash flow, and diversifying products or markets, enabling them to sustain operations and prepare for future crises.

Indonesia has shown a significant annual increase in its digital index, reflecting technological adoption progress across various sectors, including government, education, and business. In 2023, Indonesia's Digital Society Index (IMDI) reached 43.18, placing it at the foundational level. Digital transformation,

involving the use of information and communication technologies to enhance efficiency and productivity, has become an integral part of corporate turnaround strategies worldwide.

Digital transformation has emerged as a critical catalyst in supporting the Knowledge-Based View (KBV) in today's era. By leveraging digital technologies, companies can manage, store, and access knowledge more quickly and efficiently. In crisis situations, digital transformation enables companies to collect real-time data, conduct in-depth analyses, and rapidly distribute information across organizational units, accelerating knowledge-based strategic responses.

In this context, KBV offers a vital perspective on the role of knowledge as a key resource driving the effectiveness of digital transformation in turnaround strategies (Adomako & Nguyen, 2024). KBV emphasizes that organizations capable of managing and utilizing both explicit and tacit knowledge effectively are better positioned to overcome challenges during the turnaround process. By integrating knowledge into decision-making and digital technology implementation, companies can design more adaptive and sustainable strategies. Based on KBV, this study highlights the importance of stakeholder knowledge and contributes to the literature on the role of digital transformation in corporate transformation, particularly in supporting the effectiveness of turnaround strategies. Turnaround refers to a series of strategic actions taken by companies experiencing performance decline in order to return to a profitable path (Nyagiloh & Kilika, 2020). Asset retrenchment is one such step, involving the reduction, sale, or divestiture of assets that do not significantly contribute to the company's core goals. This strategy aims to optimize asset structure and create liquidity to withstand crises. Additionally, asset retrenchment allows companies to focus on high-value-generating activities, thereby improving operational efficiency and long-term profitability. This step often serves as the foundation for successful turnaround strategies, especially in financially distressed situations.

Cost retrenchment involves strategic steps aimed at reducing operating expenses to ensure business sustainability during crises. This strategy includes identifying and cutting non-essential costs such as business travel, energy efficiency measures, or renegotiating vendor contracts. Cost retrenchment provides financial flexibility, enables more efficient resource allocation, and supports healthy cash flow management. In the long run, this strategy can serve as a foundation for recovery and growth, particularly when implemented alongside other restructuring initiatives.

Previous research has tended to focus on traditional aspects of turnaround strategies such as financial restructuring, operational improvements, or organizational culture development, yet has insufficiently linked these dimensions to the role of digitalization as a key factor in corporate transformation success. In fact, digitalization can be a key driver in accelerating recovery through process optimization, technology-based data analysis, and enhanced stakeholder engagement. This study seeks to fill that gap by exploring how digital transformation, within the framework of the Knowledge-Based View (KBV), can strengthen the effectiveness of turnaround strategies in the TUNA era.

## LITERATURE REVIEW

### Turnaround Strategy

Turnaround strategy refers to strategic efforts undertaken by organizations to reverse adverse situations—such as financial losses, market decline, or operational crises—into stability or sustainable growth (Jeyasingh, 2023). The term gained widespread usage in the 1970s within strategic management studies, particularly in relation to companies facing significant difficulties. This strategy involves a comprehensive analysis of root problems, operational improvements, and the implementation of often drastic measures (Dzingirai & Baporikar, 2022).

The concept originally emerged from research on firms under market pressure or on the brink of bankruptcy. Turnaround is typically associated with major structural changes and restructuring

strategies aimed at restoring profitability or ensuring survival. In management literature, a turnaround is considered a last-resort effort to save a company from liquidation or an undesirable acquisition.

Turnaround strategy is a critical step in overcoming organizational crises by employing various approaches such as asset retrenchment and cost retrenchment. These approaches provide companies with the flexibility to withstand financial and operational pressure, allowing them to focus on areas that offer strategic value. Such strategies not only help companies survive but also offer opportunities to rebuild competitiveness in the market.

### **The Role of Digitalization Based on the Knowledge-Based View (KBV) in Corporate Crisis Situations**

Digitalization has become a key indicator in supporting the Knowledge-Based View (KBV) in the modern era. By leveraging digital technologies, companies can manage, store, and access knowledge more rapidly and efficiently. In times of crisis, digital transformation enables organizations to gather real-time data, conduct in-depth analyses, and rapidly disseminate information across organizational units—thereby accelerating knowledge-based strategic responses.

During the problem identification and analysis phase, digital transformation provides tools that facilitate the collection of data on markets, industry trends, and consumer behavior. Technologies such as big data analytics and machine learning help companies detect previously unseen patterns, allowing for more accurate problem analysis. The insights gained from these digital systems form the basis for effective decision-making during crises.

Digital transformation also accelerates the process of strategic innovation, one of the core pillars of KBV. Digital technologies enable cross-functional and cross-regional collaboration to generate new ideas. As part of the implementation, digital platforms can be used for product prototyping, market testing, or data-driven marketing. This allows companies to respond to market changes more quickly and efficiently.

Adapting to a changing environment is further supported by digital transformation, which enhances organizational learning processes. Using cloud-based platforms or digital collaboration apps, companies can develop dynamic collective knowledge that facilitates quick responses to new challenges. Additionally, digital transformation enables ongoing employee training and development through e-learning initiatives.

### **Asset Retrenchment in Turnaround Strategy**

Asset retrenchment is a strategic step to reduce or reallocate a company's assets in order to address financial or operational crises. From the perspective of the Knowledge-Based View (KBV), this process is not merely about asset divestment but also involves managing the knowledge related to those assets. Within KBV, physical assets and human resources with specific expertise or knowledge are considered strategic resources. Therefore, retrenchment decisions must be based on a deep understanding of how specific assets contribute to value creation and the company's competitive advantage.

KBV suggests that the success of a turnaround strategy often depends on how well the company integrates asset retrenchment with broader strategic initiatives. For instance, the funds generated from asset sales can be reallocated to strengthen core business areas that are supported by deep knowledge. Through the KBV framework, asset retrenchment and turnaround strategy are seen not only as tactical steps but as knowledge-based transformations. Successful companies are those that can identify, retain, and optimize knowledge-based assets to create long-term value, even in times of crisis.

### **Cost Retrenchment in Turnaround Strategy**

Cost retrenchment can be identified as a measure to reduce operational expenditures in order to improve the financial condition of the company during a crisis. From the KBV perspective, cost reduction is not

merely a reactive measure to save funds but should also be guided by a strategic understanding of the company's knowledge base. KBV emphasizes that cost efficiency should not come at the expense of core knowledge or capabilities that are strategic resources of the firm.

Turnaround strategy involves a broader approach to restoring stability and growth. KBV proposes that turnaround strategies must be grounded in both internal and external knowledge of the company, including a deep understanding of market trends, customer preferences, and innovation potential. KBV underlines the importance of linking cost retrenchment to the overall turnaround strategy to ensure that cost-saving measures support long-term strategic goals.

Based on the literature review, this study formulates the following hypotheses:

**H<sub>1</sub>:** Asset retrenchment has a positive effect on turnaround strategy

**H<sub>2</sub>:** Cost retrenchment has a positive effect on turnaround strategy

**H<sub>3</sub>:** Digitalization strengthens the relationship between asset retrenchment and turnaround strategy

**H<sub>4</sub>:** Digitalization strengthens the relationship between cost retrenchment and turnaround strategy.

## METHOD

This type of research is quantitative with a causal-explanatory approach, which aims to test the causal relationship between variables. The research focuses on the influence of asset retrenchment and cost retrenchment on the success of turnaround strategy, with digital transformation as a moderating variable that may strengthen or weaken these relationships. The population in this study includes companies under special monitoring by the Indonesia Stock Exchange (IDX) in 2020 that remained listed until 2024. The sample was selected using a saturated sampling technique, consisting of 13 companies.

The turnaround strategy of a company is measured using a binary variable: a value of 1 is assigned if the company reports cost-saving actions or strategic initiatives in its annual report, and 0 otherwise. Asset retrenchment is measured by the percentage reduction in total assets from one year to the next, indicating asset savings. Cost retrenchment is measured by the percentage reduction in total layoffs from one year to the next to assess cost savings. Digitalization, as the moderating variable, is measured using an analysis of core competitiveness based on content analysis—a value of 1 is assigned if the company adopts the latest technology, and 0 otherwise.

This study uses the logistic regression analysis method with a moderating variable, analyzed using SmartPLS 6.0 software. Logistic regression is a statistical analysis technique used to predict a binary dependent variable based on independent variables and their moderating interactions. Hypothesis testing in this study is conducted by examining the significance of the moderated path relationships using the bootstrap approach. If the probability value is less than or equal to 0.05 ( $0.05 \leq \text{Sig}$ ), the alternative hypothesis ( $H_a$ ) is accepted, indicating a significant relationship. Conversely, if the probability value is greater than or equal to 0.05 ( $0.05 \geq \text{Sig}$ ), the null hypothesis ( $H_o$ ) is accepted, indicating no significant relationship. The moderating variable is tested by incorporating the interaction term between the independent variable and the moderating variable into the model to evaluate the direct influence of the moderation on the dependent variable, presented in equation 1.

$$\log \left( \frac{P(Y = 1)}{1 - P(Y = 1)} \right) = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 Z + \beta_4 (X_1 \times Z) + \beta_5 (X_2 \times Z)$$

$\frac{P(Y=1)}{1-P(Y=1)}$  is the probability of a positive outcome (successful implementation of the turnaround strategy),  $X_1$  is the first independent variable, which is asset retrenchment,  $X_2$  is the second independent variable, which is cost retrenchment,  $Z$  is the moderating variable, which is digitalization,  $X_1 \times Z$  is the interaction between asset retrenchment and digitalization as the moderating variable,  $X_2 \times Z$  is the

interaction between cost retrenchment and digitalization as the moderating variable,  $\beta_0$  is the intercept (constant), and  $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$  are the regression coefficients that measure the influence of each variable on the probability  $P(Y=1)$ .

## RESULT

Academics in the field of finance often utilize Partial Least Squares Structural Equation Modeling (PLS-SEM) for conducting multivariate analysis. For instance, Hair et al. (2020) state that PLS-SEM is a suitable method for analyzing complex models and data that do not meet normality assumptions. Therefore, in this study, we also apply PLS-SEM to evaluate the developed research model. According to Reinartz et al. (2009), PLS-SEM excels in handling data with highly non-normal distributions, such as those with high skewness and kurtosis, and provides robust model estimations under such conditions. Before hypothesis testing, we conducted a Confirmatory Factor Analysis (CFA) to assess the validity and reliability of the constructs used. The initial step in CFA is calculating factor loadings for each indicator to determine how well the indicator represents the intended construct. Based on the guidelines from Hair et al. (2020), factor loadings above 0.5 are considered practically significant.

Next, we evaluated both construct reliability and validity, including convergent and discriminant validity. To assess construct reliability, we used Cronbach's alpha and composite reliability values. The results of the measurement tests are presented in Table 1.

**Table 1.** Results of Measurement Model

Construct	Loading	Cronbach's Alpha	Composite Reliability	AVE
Asset Retrenchment	1.00	0.78	0.86	0.62
Cost Retrenchment	1.00	0.75	0.84	0.58
Digitalization	1.00	0.80	0.88	0.65
Moderating Effect 1	0.97	0.74	0.82	0.56
Moderating Effect 2	0.98	0.76	0.84	0.59
Turnaround Strategy	1.00	0.83	0.90	0.68

Source: created by authors

According to Hair et al. (2020), good reliability is indicated by values exceeding 0.7. The analysis results (Table 1) showed that all constructs met this criterion, indicating adequate reliability. Convergent validity was evaluated using the Average Variance Extracted (AVE), which measures the extent to which a construct explains the variance of its indicators. Hair et al. (2020) suggest that an acceptable AVE value is at least 0.5. In this study, all constructs had AVE values that met or exceeded this threshold, indicating good convergent validity. Thus, through this series of analyses, we ensure that the measurement instruments used in this study demonstrate sufficient validity and reliability, allowing the results to be trusted and used for subsequent hypothesis testing.

The purpose of discriminant validity is to assess the extent to which a construct is empirically distinct from other constructs within a model. According to Hair et al. (2020), the Fornell-Larcker criterion is commonly used for this purpose. This criterion states that the square root of the AVE of a construct should be greater than the correlations between that construct and other constructs in the model.

In our study, as shown in Table 2, the square root of the AVE for all constructs is greater than the inter-construct correlations. This indicates that each construct shares more variance with its own indicators than with other constructs, thereby confirming an acceptable level of discriminant and convergent validity, as well as reliability in our measurement model.

**Table 2.** Discriminant validity of constructs (Fornell-Larcker criterion)

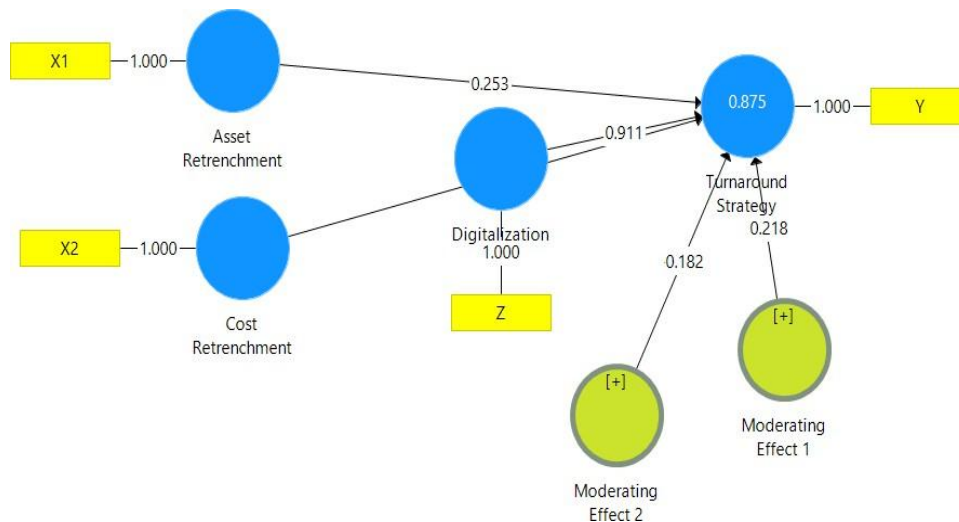
Constructs	1	2	3	4	5	6
Asset Retrenchment	1.000					
Cost Retrenchment	0.256	1.000				
Digitalization	0.323	0.060	1.000			
Moderating Effect 1	0.198	0.093	0.100	1.000		
Moderating Effect 2	0.092	0.077	0.018	0.274	1.000	
Turnaround Strategy	0.121	0.234	0.860	0.224	0.144	1.000

Source: created by authors

In this study, the evaluation of the structural model was conducted using the SmartPLS software. A key indicator for assessing model quality is the coefficient of determination ( $R^2$ ), which reflects the extent to which independent variables explain the variability of the dependent variable. The analysis revealed an  $R^2$  value of 0.857.

An  $R^2$  value of 0.857 indicates that 85.7% of the variance in the dependent variable is explained by the independent variables in the model. According to Hair et al. (2020),  $R^2$  values are interpreted as follows:  $R^2 \geq 0.75$ : Substantial,  $0.50 \leq R^2 < 0.75$ : Moderate  $0.25 \leq R^2 < 0.50$ : Weak  $R^2 < 0.25$ : Very Weak. Therefore, an  $R^2$  of 0.857 demonstrates a substantial explanatory power of the model.

Additionally, to assess the model's predictive relevance, the  $Q^2$  statistic was examined. A  $Q^2$  value greater than zero indicates that the model has predictive relevance. This value is typically obtained through the blindfolding procedure in SmartPLS. In this study, the  $Q^2$  value was found to be positive, reinforcing the model's predictive capability. Overall, these results suggest that the structural model developed in this research possesses strong explanatory and predictive qualities, supporting the validity and reliability of the study's findings.



**Fig. 1.** Structural model based  
Source: created by authors

Structural model testing also serves as hypothesis testing. This testing includes path coefficient analysis, t-statistics, or p-values. The results of this testing are presented in Table 3.

**Table 3.** Path coefficients and hypothesis testing

Hypothesis	Description	Std. Beta	p-Value	Result
H <sub>1</sub>	Asset retrenchment → turnaround strategy	0.253	0.018	Accepted
H <sub>2</sub>	Cost retrenchment → turnaround strategy	0.211	0.011	Accepted
H <sub>3</sub>	Digitalization moderates the relationship between asset retrenchment and turnaround strategy	0.218	0.018	Accepted
H <sub>4</sub>	Digitalization moderates the relationship between cost retrenchment and turnaround strategy	0.182	0.009	Accepted

Source: created by author

Based on the hypothesis testing results presented in Table, the study provides empirical evidence on the relationships between asset retrenchment, cost retrenchment, digitalization, and turnaround strategy. Hypothesis 1 (H<sub>1</sub>): Asset retrenchment has a significant positive effect on turnaround strategy ( $\beta = 0.253$ ;  $p = 0.018$ ). This indicates that strategic reduction or reallocation of assets can enhance the effectiveness of a company's recovery strategy. Hypothesis 2 (H<sub>2</sub>): Cost retrenchment also shows a significant positive effect on turnaround strategy ( $\beta = 0.211$ ;  $p = 0.011$ ). Operational cost reductions are proven to support the success of a company's recovery strategy. Hypothesis 3 (H<sub>3</sub>): Digitalization significantly moderates the relationship between asset retrenchment and turnaround strategy ( $\beta = 0.218$ ;  $p = 0.018$ ). This suggests that the adoption of digital technology can strengthen the positive impact of asset management on recovery strategies. Hypothesis 4 (H<sub>4</sub>): Digitalization also significantly moderates the relationship between cost retrenchment and turnaround strategy ( $\beta = 0.182$ ;  $p = 0.009$ ). This means that the use of digital technology can enhance the effectiveness of cost reduction in supporting a company's recovery strategy.

## DISCUSSION

### Asset Retrenchment's Influence on Turnaround Strategy

In the context of turnaround strategies, asset retrenchment—specifically, the reduction of non-productive or non-strategic assets—is a critical step toward enhancing a company's liquidity and operational efficiency. According to the Knowledge-Based View (KBV), effective asset management enables firms to concentrate resources on core capabilities and knowledge-based competitive advantages. This study found that asset retrenchment positively and significantly impacts the success of corporate turnarounds in Indonesian manufacturing companies, supporting the notion that asset reduction can strengthen a company's position during crises.

This study indicates that retrenchment strategies enhance company performance, particularly when supported by strong CEO leadership. Retrenchment strategies can create company value, their effectiveness is influenced by ownership structures; family-owned and government-linked companies tend to yield less optimal results. These studies underscore that asset retrenchment can be an effective tool in turnaround strategies, especially for companies facing severe crises such as near- bankruptcy.

### Cost Retrenchment's Influence on Turnaround Strategy

Cost retrenchment, involving the reduction of operational expenses like administrative marketing, and labor costs, is a vital component of turnaround strategies aimed at improving a company's liquidity and operational efficiency. This approach allows firms to focus resources on core capabilities and knowledge-based competitive advantages, consistent with the Knowledge-Based View (KBV). By

cutting unproductive costs, companies can enhance financial and operational flexibility, which is essential for navigating crises and restoring performance.

This study demonstrates that the intensity of retrenchment strategies, including cost reductions, can influence the success of turnarounds, particularly in companies experiencing severe crises like bankruptcy. The effectiveness of cost retrenchment strategies is also affected by factors such as compensation disparities between executives and employees, as well as the company's ownership structure. These findings emphasize the importance of cost retrenchment strategies as part of turnaround efforts.

### **Digitalization as a Moderator in the Relationship Between Asset Retrenchment and Turnaround Strategy**

Digitalization can strengthen the relationship between asset retrenchment and a company's turnaround strategy. By leveraging digital technologies, companies can more efficiently access and manage information, enabling the identification of non-productive assets and facilitating more informed decision-making in the asset reduction process. This aligns with the Knowledge-Based View (KBV), which emphasizes the importance of knowledge management in creating competitive advantage. Utilizing digital tools enhances a firm's capability to respond to environmental changes and optimize resource allocation.

This study supports that internal digitalization positively moderates the relationship between asset retrenchment and turnaround performance in publicly listed small and medium-sized enterprises (SMEs) in China. Their research indicates that firms with higher levels of internal digitalization are more effective in implementing asset retrenchment strategies, leading to improved turnaround outcomes. These findings suggest that digitalization is not merely a supportive tool but a critical factor in enhancing the success of turnaround strategies through more effective asset management.

### **Digitalization as a Moderator in the Relationship Between Cost Retrenchment and Turnaround Strategy**

Digitalization also plays a significant role in strengthening the relationship between cost retrenchment and a company's turnaround strategy. The adoption of digital technologies enables companies to improve operational efficiency, reduce costs, and accelerate decision-making processes. For instance, digitalization facilitates the automation of business processes, real-time supply chain management, and data analytics to identify areas for cost savings. This approach is consistent with the Knowledge-Based View (KBV), highlighting the role of knowledge and capabilities in achieving competitive advantage.

This study indicates that digital transformation can assist companies in alleviating financial difficulties by enhancing their innovative and adaptive capabilities. The study emphasizes that digitalization can amplify the effectiveness of cost retrenchment strategies within the context of a turnaround, provided it is implemented with consideration of the organization's readiness and capacity. In summary, digitalization serves as a key factor in improving the success of turnaround strategies by enabling more effective cost management.

## **CONCLUSION**

This study reveals that digitalization serves as a strengthening factor in the relationship between cost retrenchment and a company's turnaround strategy. Through digitalization, companies can enhance operational efficiency, reduce costs, and accelerate decision-making processes.

For instance, digitalization enables business process automation, real-time supply chain management, and data analysis to identify areas requiring cost savings. This aligns with the Knowledge-Based View

(KBV) approach, emphasizing the importance of knowledge management and capabilities in creating competitive advantages. By leveraging digital technology, companies can improve their ability to respond to environmental changes and optimize their resources.

The theoretical contribution of this finding is that digitalization can enhance a company's capabilities in managing knowledge and resources, thereby strengthening the effectiveness of retrenchment strategies in the turnaround process. The practical contribution of this research provides valuable insights for policymakers and company managers in designing and implementing turnaround strategies. Companies facing crises should consider implementing digitalization as an integral part of their retrenchment strategies. By utilizing digital technology, companies can improve operational efficiency, reduce costs, and accelerate decision-making processes, all of which contribute to the success of the turnaround strategy.

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