Strategy for Recovery from Indonesian Financially Distressed Companies in Crisis

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ABSTRACT

At the time of writing, the International Monetary Fund (IMF) declared a global economy recession due to pandemic crisis. The spread of coronavirus shut down many companies and put them in financial distress. Many previous studies investigate the strategy for firms' recovery in normal economic condition. However, firms may adopt different strategies during crises. The Asian crisis is a well-known example of a temporary, but stiff contraction across industries. In this case, troubled firms demand certain corporate strategies to recover from the crisis. The main purpose of this study is to undertake an empirical examination of Indonesian financially distressed firms as they strive to recover during the severe crisis. It compares the strategy between recovered and non-recovered firms. Successful strategies for recovery are identified through Altman's Emerging Market Score. The strategies involve four types of restructuring such as operational, financial, asset, and management restructuring. This study uses the number of employees decreased, debt restructuring, disposal of assets, and change of the CEO as the proxy of the respective types of restructuring. The success of debt restructuring appears to be the most important differentiator of recovery.

SARI PATI

Saat ditulisnya penelitian ini, Dana Moneter Internasional (IMF) baru menyatakan dunia memasuki resesi yang disebabkan karena krisis pandemi. Penyebaran virus corona menyebabkan banyak perusahaan harus tutup dan masuk kondisi kesulitan keuangan. Penelitian terdahulu mengenai strategi untuk pemulihan kinerja perusahaan banyak dilakukan perusahaan pada kondisi ekonomi yang normal. Belum tentu perusahaan dapat mengaplikasikannya dalam kondisi krisis. Krisis Asia adalah sebuah contoh yang terkenal dimana saat itu terjadi penyusutan pada semua industri. Pada kondisi tersebut perlu diketahui strategi perusahaan menghadapi krisis. Tujuan penelitian ini adalah untuk melakukan penelaahan strategi pemulihan yang dilakukan oleh perusahaan Indonesia yang mengalami kesulitan keuangan selama masa krisis. Penelitian ini membandingkan strategi yang diambil antara perusahaan yang pulih dan yang tidak pulih. Kesuksesan strategi diidentifikasi dengan Emerging Market Score dari Altman. Strategi pemulihan meliputi 4 tipe restrukturisasi yaitu restrukturisasi operasional, keuangan, aset

dan manajemen. Studi ini menggunakan turunnya jumlah karyawan, restrukturisasi utang, penyelesaian aset, dan penggantian direksi sebagai wakil variabel untuk restrukturisasi diatas. Hasil penelitian menunjukkan bahwa keberhasilan restrukturisasi utang yang membedakan antara perusahaan yang pulih dengan yang tidak pulih.

INTRODUCTION

Indonesia was badly hit by the Asian Crisis more than its East Asian neighbours. Its economic contraction was deeper and more prolonged. The crisis, which started in mid-1997, depreciated Indonesian currency by one-sixth between 1997 and 2002. This led to a contraction of the economy, making Indonesia's real GDP growth minus 13.7% and inflation rate 58.5 % in 1998. The collapse of the financial markets resulted in the decline of economic activity in most major sectors, including banking as an intermediary market. All sectors, except agriculture and utilities, encountered negative growth. The worst affected sector was construction (-39.7%), followed by services (-16.8%) and manufacturing (-12.9%).

At a deeply depreciated exchange rate, the presence of un-hedged short-term dollar borrowings to finance long-term investment is one of the micro-specific issues. In addition, Indonesian firms also encountered high interest borrowing rates since the central bank raised the interest rates of currencies in attempt to stop the fall in the exchange rates (Tse 2000). The situation above made 30% of the Indonesian corporations technically insolvent. This is in the sense that the values of their equities were less than that of their liabilities in that year, after accounting for the changes in the exchange and interest rates. This shows that they struggled for recovery in a severe situation (Claessens, Djankov and Ferri 1999; among others).

The purpose of this paper is to examine the strategies for recovery from Indonesian financially distressed companies during the Asian crisis. The crisis was a well-known example of a temporary, but stiff contraction across industries to demand the implementation of certain strategies in response to such a crisis. The choice and design of these strategies, together twith their effectiveness in allowing companies to regain financial health, have been widely debated in the literature.

The evidence reported in the paper is obtained from a sample of 29 Indonesian financially distressed companies. Only 55% (16) of those companies recovered within 10 years compared to the 35 months median time spent by distressed companies in Kahl's study (2002). The evidence supports that financial strategies are suitable for the successful recovery during the crisis.

The remainder of the paper is organized as follows. First, it examines an overview of the corporate sector in Indonesia during the Asian crisis. This provides the understanding of the characteristics of Indonesian firms and their difficult situation during and after the crisis. The next section reviews the literature on turnaround process, particularly considering approaches to firm recovery that have been developed and validated. Then, it develops the hypothesis to be tested. This hypothesis examines key recovery processes and actions undertaken by financially distressed firms in Indonesia. The next section discusses the main data and the research design. It also presents the explanatory variables previously identified, since other factors may influence the time to recovery. Then it reports the analysis and the findings. Finally, it draws some conclusions and the limitations of this study.

An Overview of Corporate Sector in Indonesia during the Asian Crisis

Indonesia was the worst harmed by the crisis, more than its East Asian neighbours. It encountered a double crisis in the sense that its serious economic and financial issues were accompanied by political reform (Hill and Shiraishi 2007). On a micro level, Indonesian companies suffered a high bank loan ratio due to Rupiah depreciation at the onset of the distress. Most of them financed their business activities by using foreign currency loans and did not cover the currency risk by using hedging instruments. Before the crisis, the borrowers preferred foreign loans with lower interest rates. The average borrowing rate for dollar loans was around 8% per year (Worldbank data). The Indonesian rupiah was historically stable, with 4% depreciation against US dollars. Hence, the total dollar-borrowing

Table 1. The Financing Structure of Financially Distressed Firms

Descriptive statistics of financing structure by using a sample of Indonesian financially distressed firms at the onset of distress. Year of the distress onset was varied between 1997-02. The figures are calculated as percentage of total debt and equities. Some firms encountered loss income statement. Concentrated ownership is defined as ownership of 5% or more of outstanding shares by a single shareholder while widely held has ownership of less than 5%.

Company	Bank Loan				Bond		Comm.	Paper	Stock	Widely held
	Short Term		Long Term							
	Foreign	Rupiah	Foreign	Rupiah	Foreign	Rupiah	Foreign	Rupiah	Concentrated	
Apac Citra	28%	6%	16%	39%					14%	9%
Argha Karya Prima	64%		21%						6%	2%
Astra Graphia	9%		43%						12%	3%
Charoen Pokphand	42%	1%	50%						4%	1%
Davomas Abadi		3%					56%	37%	12%	8%
Dharmala Intiland	5%	12%	13%	21%					19%	19%
Fast Food Ind.		14%		21%					30%	8%
Indomobil Sukses	34%	12%	18%	4%					11%	1%
Intikeramik Alam	2%	3%		74%					9%	4%
Intraco Penta	36%		40%						7%	2%
Kedawung Setia	34%	5%	32%	0.4%					23%	11%
Keramika Indo.	33%	18%	26%	1%					12%	3%
Lionmesh Prima	44%	11%							22%	3%
Modern Photo Film	50%	1%							10%	3%
Nipress Tbk	16%	3%	58%						15%	3%
Panasia Indosyntex	16%		34%			19%			11%	6%
Pioneerindo Gour.	12%		14%	2%					38%	5%
Prima Alloy Steel	69%	24%	1.2%						15%	4%
Primarindo Asia	62%	1%	30%						16%	8%
Semen Cibinong	34%	4%	12%	1%	32%		10%		8%	1%
Sunson Textile	22%	1%	34%						18%	10%
Surabaya Agung	29%	0.4%						2%	7%	3%
Surya Semesta Int.	33%	8%	16%	1%					19%	7%
Trias Sentosa Tbk	77%						3%		6%	4%
United Tractors	30%		45%						2%	1%
Zebra Nusantara		1%		51%					19%	8%
MEAN	34%	7%	28%	20%	32%	19%	33%	20%	14%	5%
MEDIAN	33%	4%	28%	4%	32%	19%	33%	20%	12%	4%
QUARTILE 1	19%	1%	16%	1%	32%	19%	22%	11%	8%	3%
QUARTILE 3	43%	12%	39%	21%	32%	19%	45%	28%	18%	8%
ST. DEVIATION	20%	7%	15%	25%	n/a	n/a	33%	25%	8%	4%
N	23	18	17	11	1	1	2	2	26	26

rate was assumed to be cheaper than the average 18% interest for loans in local currency. In 1998, the total Indonesian corporate debt reached nearly USD 118 billion. More than half comprised of un-hedged foreign currency borrowings. Therefore, when the currency crisis reached Southeast Asia, Indonesia's corporate sector collapsed in the sudden currency fluctuations.

On average, the sample firms at the onset of distress relied on bank loans as the main source of financing (Table 1).

The second source was equity financing. In fact, while the sample firms are publicly listed companies, the concentrated owner still has a larger portion of the firm's shares than in a widely dispersed ownership. Moreover, only four firms in the sample used commercial paper and two of them issued bonds as other alternative sources of capital financing. In general, this financing structure is typical of Indonesian public listed companies.

Claessens, Djankov and Nenova (2001) classify Indonesia as having bank-based or relationship-based financial systems. By definition, bank-based systems will be characterised by higher leverage, as debt financing is used more extensively by such systems than by market-based or arms length systems. The reason is that in market-based systems, the capital market works better and encourages firm to issue stock as the main source of financing. Consequently, it may lower the leverage. In bank-based systems, however, banks are the main external sources. This type of capital funding is debt financing and thus increases the debt ratio. The distinction also relates to the nature of corporate sector risk-taking and the degree of implicit versus explicit risk-sharing (Allen and Gale 1998). In bank-based systems, much systematic risk is inter-temporally smoothed through close relationships between banks and corporations.

Literature Review

Turnarounds are dynamic processes comprising a sequence of activities leading firms from a situation of decline to a period of sustained success or organizational failure (Sheppard & Chowdhury 2005). Recovery is one of the phases in a turnaround process. It can generally be classified into efficiency and entrepreneurial / growth-oriented strategies. In recovery strategies, firm should continue to pursue profitability or implement growth-oriented moves. However, some studies suggest that cut back and restructuring initiatives, not entrepreneurial initiatives, were significant factors for successful turnarounds. Those activities allow distressed firms to gain resources and convince external resources to fund their growth. Moreover, some research recommends that efficiency oriented recovery strategies is important for any successful turnarounds regardless of the cause of decline (Chowdhury and Lang 1996; Pearce and Robbins 1993; among others).

Bibeault (1982) offered the concept of a two-staged model of turnaround. This suggests firms to do, first, emergencies strategies to address the distress situation. The objective is to ensure a positive cash flow. This immediate survival must be combined with stabilization plans to streamline and improve the firm's core operation after the stage of stabilization. Second, firms should enter to recovery strategies and decide whether they simply to continue its previous strategies in a scaled-down, refined form, or whether they would pursue return-to-growth strategies. However, in financial distress condition where the causes of decline are an industry contraction-based and cyclical decline, efficiency oriented initiatives are more dominant than strategic change in recovery strategies.

Previous studies provide some support for the requirement of stable operations for recovery. The efficiency oriented strategies aim to stabilize firm's operation. They address cost reduction, revenue generation and operation-asset reduction programs to cut down direct costs and overheads whilst maintaining or improving production. The growth oriented strategies seek to restore profitability. When

the cause of decline is an industry contraction-based, some papers suggest less relatively strategic change for recovery (Falkenberg et al. 2004).

Lasfer and Remer (2010) analyze the strategies undertaken by financially distressed companies in UK that apply following 4 main generic restructurings strategies in their study.

Operating Restructuring

The efficiency oriented strategies aim to stabilize a firm's operation. They address cost reduction, revenue generation and operation-asset reduction programs to cut down direct costs and overheads whilst maintaining or improving production. When the cause of decline is an industry contraction-based, some papers suggest less relatively strategic change for recovery (Falkenberg et al. 2004). Sudarsanam and Lai (2001) suggest that this operational action may be necessary but not a sufficient condition for recovery. It includes business unit level sales, closures, integration of surplus fixed assets such as inventory and debtors.

Financial Restructuring

This strategy includes renegotiating with banks and other creditors, issuing new security, cutting/omitting dividends and exchanging debt for equity. This type of restructuring involves debt and/or equity restructuring and can either generate or conserve cash. When firms in Indonesia are financially distressed, the creditors can do one of the following actions. First, they may restructure the debt through a restructuring plan. The result of debt renegotiation can be one of the following consequences: the required interest or principal payments on the debt are reduced and/or the maturity of the debt is extended, or the creditors are given equity securities (Gilson et al. 1990). Second, the creditors may liquidate either completely or partially. The liquidation process can use court (formal) or out-of-court (informal) procedures. The difficulty in liquidation decisions is avoiding the destruction of on-going value by liquidating more than the optimal amount of hard assets. If a firm liquidates (completely or partially), the destruction of the going-concern value is the cost of financial distress (John 1993).

Asset Restructuring

Shleifer and Vishny (1992) consider the scenario where a firm reacts to financial distress by selling assets. They identify three factors determining the market liquidity of the firm's assets. The first is the number of potential buyers in the market; the second, the characteristics of the assets being sold. If the assets are industry-specific, an inside buyer is likely to value the assets more highly than an outsider. However, even if the inside buyer is more likely a higher bidder; the selling firm may sell to an industry outsider when the industry itself is in trouble. When firms encounter trouble in repaying debts and attempt to sell their assets, the highest valuation buyers of these assets are likely to be other firms in the same industry. The third is the financial condition of the industry. If the industry where the firm operates is distressed, it will affect the liquidity of the asset; a poor financial condition in an industry will increase the liquidity premiums of assets. The premium may be reduced if the asset is used in other industries. However, the industry outsiders who may not know how to manage them will encounter agency costs of hiring specialists to run the assets and fear overpaying since they have no knowledge of the assets' value. When there are no industry buyers to buy the assets and the only buyers are industry-outsiders, they will charge significant fees for managing and acquiring the assets. Consequently, the price of the assets will be depressed.

Management restructuring

Previous studies indicate the importance of leadership change during financial distress. The replacement of CEOs is common and it does not directly involve cash. Whitaker (1999) finds that well managed companies that enter into financial distress as a result of industry decline would seem to less likely benefit from corrective management actions than would those that enter due to the

effects of poor management.

When firms have trouble meeting debt repayments and selling assets, the highest valuation potential buyers of these assets are likely to be other firms in the industry. But these firms are likely to have trouble meeting their debt payments when the shock causing is industry-or economy-wide. When systemic crisis attacks Asian countries, the industry buyers are unlikely to be able to raise funds to buy the distressed assets. If the industry buyers cannot buy the assets and industry outsiders encounter significant costs of acquiring and managing the assets, the assets in liquidation will be sold at depressed prices. The poor financial condition of an industry will increase the liquidity premiums in such sales. Although the premium may be reduced if the asset is usable in other industries, asset-restructuring costs are likely to be high if the market for used assets is illiquid. Thus, this asset restructuring might not help distressed firms recover significantly due to liquidity issues in industry wide crisis.

Some studies agree that CEO replacement is one of the requirements for a successful turnaround (Denis and Kruse 2000; among others). However, some mentioned that the Asian crisis was more external/economic causes for the distressed companies. Hence, the top management (the managing director in Indonesia) was more likely not replaced. Moreover, Indonesian listed companies are dominated by family businesses. The owner kept his position as a top manager in difficult times. Previous studies also indicate little empirical evidence from large sample studies that the changes are linked to recovery. Moreover, it is not clear whether changes in CEO during the Asian Crisis were necessary (O'Neill 1986; Castrogiovanni et al. 1992).

Credit crunch generally happened after financial crisis. Indonesian banks were more careful in lending. Meanwhile the capital market was not functioning well due to investors' prudence. Thus, Indonesian firms were challenged with limited external financing availability. Investing in more assets will be tough efforts during the Asian crisis, though such strategy is necessary for firms' growth. With limited source of external available funds, increased in asset will put firms into lack of cash. Consequently, distressed firms that are successful in renegotiating the terms of their debt contracts can either generate or conserve cash and are likely to recover. Based on above discussions, this study hypothesizes as follows.

H_1: Firms adopt financial strategies are likely to recover.

METHODS

In the context of this paper, financial distress refers to a situation where the amount of net cash flow that a company realises from its operations in a year (popularly known as earnings before interest tax, depreciation and amortisation – EBITDA) is positive but not enough to pay interest on its outstanding debt. Firms must satisfy several criteria to be included in the sample. First, they must have an interest coverage ratio between 0 and 1 for at least one year between 1997 and 2002 (the Asian crisis period). The interest coverage ratio is calculated from DataStream by dividing operating profit before interest expense, income taxes, depreciation and amortization with interest charges. In this case, the interest charges represent the aggregate value of interest paid less interest received. The sample contains non-financial firms only and 40 firms meet this criterion. Other reasons, for instance, incomplete data or a missing series of annual reports (1 firm) and 4 firms in the sample went private in the year before the onset of distress, hence the number of firms in the sample reduced to 35. The onset year is the year when firms for the first time have interest coverage ratio between 0 and 1 and conducted debt restructuring. The data were drawn from Indonesian Capital Market Directory, firms' annual reports, DataStream and Capital IQ. The data files contain 1996 – 2010 both financial and non-financial data.

An interest coverage ratio between 0 and 1 does not mean that firms will necessary become financially distressed, that is, have difficulties in fulfilling the covenants in their debt contracts. Debt payment can be made from other sources than operating income, for firms have many options to obtain the cash needed to avoid default, including utilizing cash reserves, reducing inventory levels, extending trade creditors, drawing upon bank lines of credit, restructuring debt payments prior to default, raising equity and selling assets (Whitaker 1999). Therefore, the following additional criteria should be considered to determine the onset of distress. The auditor disclosure in notes to the financial statement must indicate that the firms are negotiating with their creditors to restructure their debts in order to avoid a default (Appendix 1). Debt restructuring is defined as an exchange of financial claims which a firm makes to avoid defaulting on its debt, including exchanges such as maturity extensions (Gilson 1990). After this screening, six firms were not supported by restructuring news and the remaining sample contains 29 financially distressed firms (Table 2).

Most of the firms (16) plunged into financial distress for the first time in 1998 (55.2%). Seven firms renegotiated their loans with their creditors in 1997 and the remaining firms in the sample rescheduled their debts for the first time in 1999 and 2000. The median (mean) book value of assets is Rupiah 1,098 (1,580) billion or US$ 179 (125) million (by using the average exchange rate between the US$ and the Indonesian Rupiah in 1999- 2002 of US$1= 8,812 Rupiah). The sample firms are comparable to other samples of financially distressed firms. They are in between Gilson's (1990) sample with median of US$ 74.8 million and James' (1995) sample with median of US$ 135.95 million. The difference between the median and mean values indicates substantial heterogeneity across sample firms. The median (mean) of the sample's interest coverage ratio, 0.278 (0.364), indicates that the sample firms have positive earnings before interest, taxes, depreciation and amortization but not enough to pay interest charges. The median (mean) of operating income (EBITDA / Total Sales) is 4.8% (7.5%). Median book leverage (short-term debt plus long-term debt. divided by the same expression plus the book value of common equity) is 86% (87%).

Table 2. Sample Selection

Panel A: Sample Selection Process	n
Public listed firms in Jakarta Stock Exchange in 1997-2002	311
Firms in financial or insurance industries	(42)
Firms with interest coverage (EBITDA/Interest) not between 0 and 1	(229)
Firms with an incomplete or missing series of annual reports due to lack of data or being private	(5)
Firms without auditor confirmation of debt renegotiation	(6)
Total firms remaining in sample	29

Panel B: Sample Distribution by Year		
Year	Onset Distress	%
1997	7	24.2
1998	16	55.2
1999	3	10.4
2000	3	10.4
2001	0	0
2002	0	0
Total	29	100.00

Table 3. Summary Statistics of Firms at the Onset of Financial Distress

Summary statistics are presented for 29 firms which entered financial distress between 1997 and 2002. The characteristics are measured in the year of the onset of financial distress. N denotes the number of observations. The data are from Datastream. Interest coverage is defined as the ratio of the earnings before interest, taxes, depreciation and amortization (EBITDA) and interest expenses. Book leverage is defined as short-term debt plus long-term debt divided by the same expression plus the book value of common equity.

Panel A: Financial Performances at the Onset of Financial Distress

Variable	Mean	Median	25th Percentile	75th Percentile	N
Book Value of Assets (bio Rupiah)	1.580	1.098	217	1.975	29
Total Sales (bio Rupiah)	750	402	126	756	28
Interest Coverage Ratio	0.364	0.278	0.131	0.538	29
EBITDA / Total Sales (%)	7.5	4.8	1.4	10	28
Book Leverage (%)	87	86	74	95	29

Panel B: Assets at the Onset of Financial Distress

Assets (Rupiah[1] billion)	Number of Firms (%)
Smaller than 100	3 (10)
Between 100 and 500	8 (27.6)
Between 500 and 1000	2 (6.9)
Between 1000 and 5000	15 (52)
Larger than 5000	1 (3.5)

[1]As of 31 December 1998, the exchange rate between the US$ and the Indonesia Rupiah is US$1= 8,025 rupiah. The average exchange rate between the US$ and the Indonesian Rupiah in 1999 to 2002 is US$1= 8,812 rupiah.

The biggest percentage (52%) of firms have a book value of assets between 1,000 and 5,000 Rupiah billions. The second biggest percentage (27.6%) of firms has a book value of assets between 100 and 500 Rupiah billions (Table 3).

The year of recovery is the year when the Emerging Market Score (EM Score) reaches more than the EM Score equivalent to US investment grade (Altman 2005) and firms show positive operating cash flow. The Altman EM Score is an enhanced version of the statistically proven Z-Score (Altman 1993), calibrated the variables and the resulting score is equivalent with the US bond rating. This rating was adjusted for three main factors such as the firm's vulnerability to currency devaluation, its industry affiliation, and its competitive position in the industry (Altman & Hotchkiss 2005). Previous studies apply this EM Score to investigate the impact of the crisis on financial distress in emerging markets (Paolone and Rangone 2015; among others)

$$EM\ Score =$$
$$3.25 + 6.56 \times Net\ Working\ Capital/Total\ Asset$$
$$+ 3.26 \times Retained\ Earnings/Total\ Asset$$
$$+ 6.72 \times Operating\ Income/Total\ Asset$$
$$+ 1.05 \times Book\ Value\ (BV)\ of\ Equity/Total$$
$$Liabilities$$

Each firm's estimated years to recovery (YEAR) were calculated from onset distress year to year when EM Score reached more than 5.65 for three consecutive years. The 5.65 score is equivalent to US investment grade (above BBB-) bond rating. To examine the strategies of recovered and non-recovered firm, I do tests equality for recovered and non-recovered samples based on t-test, F-Stat for two independent samples to test the hypotheses.

RESULTS AND DISCUSSION

Half of the firms in the sample (48.3%) recovered within 5-6 years. The median is 4 years. The rest (2 firms) spent 9-10 years to recover and 10 firms

Table 4. Sample Distribution by Years to Recovery

Year (s) to Recovery	Number of Firms	%
1-2	5	17.24
3-4	3	10.34
5-6	6	20.69
7-8	0	-
9-10	2	6.90
No sign of Recovery	4	13.79
Unconfirmed sign of Recovery	6	20.69
Liquidated, Delisted	3	10.34
Total	29	100

Table 5. Variable Mean and Median of EM Score

Panel	A				B				C				D			
	Net Working Capital / Total Asset				Retained Earnings / Total Asset				EBIT/ Total Asset				BV of Equity / Total Liabilities			
	Mean		Median		Mean		Median		Mean		Median		Mean		Median	
Year	R	NR	R	NR	R	NR	R	NR	R	NR	R	NR	R	NR	R	NR
1997	(0.01)	(0.13)	0.01	(0.15)	0.05	(0.06)	0.05	(0.04)	0.08	0.05	0.08	0.04	0.44	0.20	0.33	0.21
1998	(0.19)	(0.55)	(0.15)	(0.47)	(0.04)	(0.26)	(0.02)	(0.21)	0.11	0.06	0.09	0.03	0.21	0.12	0.16	(0.07)
1999	(0.10)	(0.58)	(0.18)	(0.66)	0.01	(0.21)	0.02	(0.18)	0.09	0.04	0.06	0.03	0.31	(0.00)	0.25	(0.05)
2000	0.02	(0.87)	0.17	(0.62)	(0.05)	(0.58)	(0.04)	(0.33)	0.09	0.03	0.09	0.03	0.21	(0.24)	0.18	(0.15)
2001	0.02	(0.47)	0.07	(0.23)	(0.02)	(0.68)	(0.00)	(0.56)	0.08	0.03	0.07	0.02	0.41	(0.17)	0.30	(0.11)
2002	0.06	(0.49)	0.12	0.02	0.02	(0.72)	0.03	(0.69)	0.05	(0.02)	0.04	(0.03)	0.53	(0.03)	0.37	0.12
2003	0.10	(0.34)	0.12	0.02	0.06	(0.63)	0.07	(0.48)	0.05	(0.06)	0.06	(0.02)	0.69	0.03	0.53	0.12
2004	0.42	(1.87)	0.13	0.05	0.19	(1.71)	0.09	(0.47)	0.07	(0.05)	0.06	(0.01)	0.64	(0.02)	0.69	0.08
2005	0.09	(0.54)	0.09	(0.04)	0.09	(0.80)	0.10	(0.49)	0.16	(0.01)	0.08	(0.01)	0.68	(0.00)	0.70	0.03
2006	0.13	(0.51)	0.06	(0.17)	0.13	(0.95)	0.13	(0.80)	0.15	(0.02)	0.06	(0.02)	0.71	0.04	0.68	0.05
2007	0.12	(0.33)	0.09	(0.12)	0.10	(0.73)	0.13	(0.19)	0.13	0.02	0.05	0.02	0.77	0.07	0.73	0.02
2008	0.13	(0.07)	0.11	(0.05)	0.11	(0.87)	0.08	(0.47)	0.09	0.03	0.08	0.04	0.82	0.13	0.76	0.08
2009	0.14	(0.08)	0.16	(0.02)	0.14	(0.76)	0.11	(0.51)	0.06	0.05	0.06	0.02	0.93	0.21	1.00	0.15
2010	0.19	(0.06)	0.19	(0.03)	0.18	(0.68)	0.12	(0.31)	0.10	0.04	0.07	0.02	1.21	0.42	0.89	0.34

R : Recovered firms, NR : Non-Recovered firms

Median	Median	Median	Median

Median	Median	Median	Median
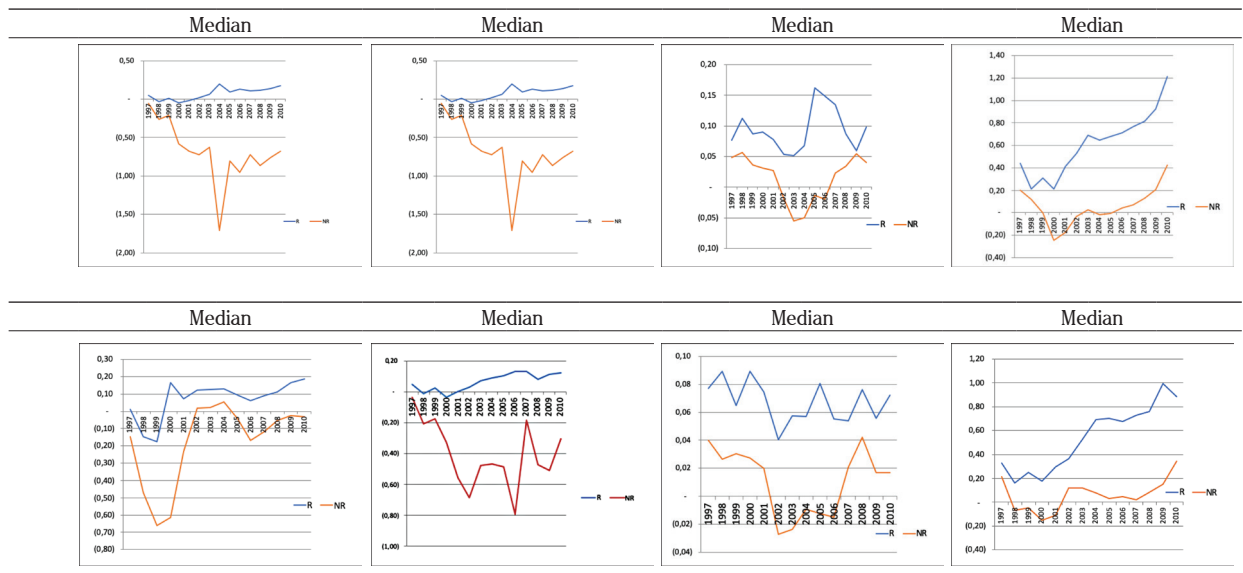
were not confirmed to have scored more than the EM Score equivalent to US investment grade. This study classifies them as non-recovered firms. Three firms were liquidated or delisted, see table 4.

The median EM scores and ROI of recovered firms were different significantly from those of non-recovered ones. This study explores each indicator of Altman (2005) to get insight to specific issues that distress companies have. The breakdown of each financial ratio shows the following findings, see table 5.

Both firms suffered liquidity problems at the beginning of Asian crisis. However, the recovered firms managed to have positive liquidity (Net Working Capital over Total Asset) and kept their positive liquidity throughout the year. This finding supports the importance of liquidity for a successful recovery. It conforms to standard management theory of turnaround and practice that maintaining liquidity is a key of successful recovery. However, recovered firms applied more financial strategies to manage their liquidity. This liquidity did not come from retrenchment strategy. The recovered

Table 6. Strategic Focus

Panel A: Recovered Firms

Company	Onset Distress Business Focus	Business Focus
Argha Karya Prima	1998- Manufacture in flexible packaging Marketing and Trading of films Manufacture of BOPP film	2003- Manufacture in flexible packaging Marketing and Trading of films Manufacture of BOPP film
Astra Graphia	1998-Document Information Technology Telecommunication Footwear Leather Garment	1999- Document Information Technology Telecommunication Footwear Leather Garment
Charoen` Pokphand	1998- Feed Day-Old Chicks Poultry Equipment Cut Chicken	1999- Feed Day-Old Chicks Processed Chicken Poultry Equipment Cut Chicken
Davomas Abadi	1998- Cocoa Butter Cocoa Powder	2001- Cocoa Butter Cocoa Powder
Dharmala Intiland	1998-Residential Serviced Apartment & Hotel Rental, Maintenance & Utilities Income	2007- Real Estate Rental Building Apartment & Hotel Sports Club
Fast Food Ind.	1998- Food Beverage	1999- Food Beverage
Intraco Penta	1998- Heavy Equipment Spare Parts Workshop	1999- Heavy Equipment Spare Parts Workshop
Kedawung Setia	1997- Corrugated Carton Box & Egg Tray Boxes Enamel Houseware & Plastic Goods	2006- Corrugated Carton Box Enamel Houseware
Lionmesh Prima	1998- Welded Wire Mesh Wire Mesh Fence Gabion Practice Columns	2003- Welded Wire Mesh Wire Mesh Fence Gabion Practice Columns

Modern Photo Film	1998- Producer and Exporter of Cameras, Car Stereos Assembler of Photographic Film and Paper Retailer Photographic Development Camera Flash Producer	2001- Producer and Exporter of Cameras, Car Radios and Musical Equipment Producer of Film and Photographic Paper Retail Trading Photographic Development
Nipress Tbk	2000- Automotive Battery Motorcycle Battery Sealed Lead Acid Battery Golf Cart Battery	2003- Automotive Battery Motorcycle Battery Sealed Lead Acid Battery Golf Cart Battery
Prima Alloy Steel	1997- Aluminium Alloy Wheels	2002- Aluminium Alloy Wheels
Surya Semesta Int.	1998- Industrial Estate and Real Estate Building Constructions Building Materials Hotel	1999- Industrial Estate and Real Estate Building Constructions Building Materials Hotel
Trias Sentosa Tbk	1998- BOPP Film Polyester Film	2002- Manufacturing and Trading of Plastic Packaging Material
United Tractors	1998- Construction Machinery Mining Contractors Mining Material Handling	2000- Construction Machinery Mining Contractors Mining
Zebra Nusantara	1998- Taxi of Services	2003- Taxi of Services

Panel B: Non-Recovered Firms

Company	Onset Distress Business Focus	Business Focus
Apac Citra	1997- Garments Weaving and Spinning	2010- Garments Weaving and Spinning
Indomobil Sukses	1997- Automotive (Including Workshops) Rental and Services Local Component Footwear	2010- Automotive (Including Workshops) Financial Services Rental and Services
Intikeramik Alam	1999- Procelain Tile Manufacture (Building Products)	2010- Procelain Tile Manufacture (Building Products)
Keramika Indo	1999- Ceramic Roof Tiles Porcelaine Tiles	2010- Ceramic Wall Tiles Ceramic Roof Tiles Ceramic Floor Tiles
Panasia Indosyntex	1997- Polyester Yarn Polyester Staple Fibre Worsted Yarn Fabrics	2010- Polymerizes, Twisting and Spinning Textile
Pioneerindo Gour.	1998- California Fried Chicken Sapo Oriental Cal Donat	2010- California Fried Chicken Sapo Oriental Cal Donat
Primarindo Asia	1998- Production of sports/casual shoes Distribution of sports/casual shoes	2010- Production of sports/casual Shoes Distribution of sports/casual Shoes
Semen Cibinong	1997- Cement Ready-mix Concrete	2010- Cement Ready-mix Concrete Aggregates Quarry
Sunson Textile	2000- Spinning	2010- Spinning Weaving
Surabaya Agung	1998- Paper & Packaging Board	2010- Culture Paper Industry Paper

firms kept their good liquidity by obtaining debt restructuring agreement more than generating cash by reducing number of employees and disposing their assets.

The Asian crisis is believed to be a temporary industry contraction. It makes most of sample firms did not change their business focus. This strategy shows less favorably to firms exiting their industry. The firms might apply only incremental strategic changes that aimed to strengthen their historic position (O'Neill 1986).

From the generic restructuring strategy, the ability of firms to renegotiate debts successfully differs between 2 groups. Recovered firms obtained debt restructuring agreement from creditors more than non recovered firms. This shows the indicated financial strategy for recovery. The results show that both groups reduced the number of their employees, sold their assets in small amount due to market liquidity, changed their top management during the financial distress. Previous studies argue the changes of top management can significantly impact strategic choices and the performance of firms. The changing firm leadership could help lead the firms to recover. However, the result shows it did not differ between two groups.

CONCLUSION, IMPLICATION, AND LIMITATION

Research in recovery has been dominated by the investigation of turnaround in normal economic condition. Many of those studies suggest that efficiency oriented recovery strategies is important. However, this operational action may be necessary but not a sufficient condition for recovery in the crisis situation.

This study examines Indonesian financially distressed firms' strategy to recover during the Asian crisis. The crisis is very severe in the sense that Indonesia encountered both serious economic and financial issues that were accompanied by political reform. In this situation, the firms may apply operating, financial, asset and management restructuring. The results of this study supports the standard theory of turnaround and the practice that maintaining liquidity is a key of successful recovery. However, more successful financial restructuring appears to be the differentiator between recovered and non-recovered firms.

Two important limitations should be taken into consideration when it comes to applying the research findings. Firstly, the prediction of recovery depends on EM Score values with equivalent to investment bond rating. This could make the

Table 7. Differences in Proportion of the Strategies Undertaken and Financial Performance during the Distress Period

Most of recovered and non-recovered firms did operating, financial, asset and management restructuring. Proportion firms that succeed in debt restructuring are significantly bigger in recovered firms than in non- recovered firms.

*** Significant at the 1% level; ** Significant at the 5% level; * Significant at the 10% level.

Types of Restructuring	Recovered (16)	Non-Recovered (10)	t-stat
Operating (Employees declined)	68.75%	70%	-0.0671
Financial (Debt Restructuring)	73%	30%	2.1514**
Asset (Disposal of Assets)	75%	70%	0.2796
Management (Change the CEO)	31.25%	60%	-1.4435

research findings less reliable. The EM Score model is based on fundamental financial review derived from a quantitative risk model as well as on Altman's evaluations (2005) of specific credit risks in the emerging market in order to arrive at a final modified rating. In other words, this EM Score model is the enhanced version of statistically Z score model as the accuracy and reliability of the original model are proven high.

Secondly, several variables depicted in the turnaround process model were omitted from this study due to the limited information contained in annual reports. As a result, it is unclear what role the level of stakeholder support, cause of decline, and competitive position, will play in the recovery process. A priori, distressed firms that enjoy a high level of stakeholder support are more likely to survive, as these firms will have continual support from creditors, employees and customers. ■

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