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Debt Restructuring and Financial Performance SOEs in Indonesia

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ABSTRACT: This study aims to examine the effect of debt restructuring on the financial performance of state-owned companies in Indonesia. Debt restructuring is carried out to provide support in the form of leeway for companies that are experiencing financial difficulties so that they can get out of the problem within a certain period. The samples taken and selected in this study were based on purposive sampling for SOEs companies listed on the Indonesia Stock Exchange with financial statement data for the period 2018-2022. There are three research models tested using multiple regression analysis. The results showed that there was a decrease in financial performance after the company restructured its debt, both financial performance as measured by profitability, liquidity and sustainable growth rate. The decline in financial performance can be caused, among others, by the use of restructuring methods by extending the maturity of debt payments (rescheduling) which causes a decrease in the amount of short-term debt, including affecting the decline in the company's profit growth.

KEYWORDS: debt restructuring, financial performance, profitability, liquidity, sustainable growth rate.

INTRODUCTION

An economic crisis can become the reason for the sickness or death of a company that previously had a healthy performance. Economic crises can also increase the intensity of sickness or death of companies that have previously been sick for other reasons, for example due to mismanagement and other internal variables. Company unhealthiness can also occur as a result of an interactive combination between the economic crisis (external variables) as part of the business environment that is outside the company and the company's internal variables.

The Covid pandemic that has been going on since 2020 has resulted in almost all sectors being threatened with bankruptcy, one of which is State-Owned Enterprises (SOEs). This business entity is engaged in important sectors of economic activity which will become the main pillar in the source of state revenue. Several SOEs companies carry out funding activities to keep the company's operations running properly. Funding of the Company's operational activities is a major concern for management. Funding determines the sustainability of the Company's operations. Internal funding comes from own capital and retained earnings, while external funding comes from creditors in the form of loans or investors in the form of issuing new shares. Funding sourced from capital, retained earnings, and from investors does not need an obligation to return these funds, while funding from lenders or creditors is a company debt that must be returned.

Greater use of debt is often associated with increased corporate financial risk. Company management must consider how the company can get cash to pay off its debt. The business activities undertaken should be aimed at increasing sales and reducing costs. However, the risk of default may occur because the company's business activities are affected by general economic conditions. When the business environment is experiencing a shock, companies are at high operational risk, especially companies with high levels of debt tend to experience financial difficulties. Financial difficulties are a form of business failure (Veganzones & Severin, 2021). One of these failures is that the company cannot pay its debts (Bhattacharjee & Han, 2014), thus harming creditors (García et al., 2019). If not handled properly, financial difficulties can result in company bankruptcy (Lizares, R. M. & Bautista, 2021).

Companies experiencing financial difficulties try to get out of this situation in a corporate action known as restructuring. Restructuring is a change in the business model, ownership, asset structure or capital structure of a company in order to continue to achieve its goals (Silva & Saito, 2018). Restructuring is also a way to avoid liquidation or bankruptcy claims by creditors by agreeing on certain terms known as debt restructuring (Ghosh, 2019; R. Greenwood et al., 2020). Various forms of

debt restructuring schemes include debt renegotiation and debt rescheduling, debt to asset swaps and debt to equity swaps (Cepec & Grajzl, 2020; Tedeschi et al., 2021).

Based on previous research, the impact of debt restructuring on the company's financial performance shows mixed results. Debt restructuring has a significant effect on investor valuation (Kaur & Srivastava, 2017). Decreasing the amount of debt and reducing interest expenses allows companies to expand their business and perform relatively better in the long run. (Jiang, J., Liu & Yang, 2019) showed that debt restructuring did not significantly increase the company's overall investment.

Based on this, several SOESs in Indonesia have restructured debt, both by providing loan funds in the form of Investment Fund Accounts (RDI) and loan successors or subsidiary loan agreements (SLA) which are loan schemes provided by the Government of Indonesia since the 1970s. In this study, researchers will test whether debt restructuring can improve the financial performance of SOESs in Indonesia.

LITERATUR REVIEW AND HYPOTHESIS DEVELOPMENT

A. Trade Off Theory

Trade-off theory is Myers' refinement of Modigliani and Miller's (1977) hypothesis. This theory shows how weighing the benefits of utilizing debt can help choose the best capital structure. The magnitude of the conflict between desires and interests (trade-off) between collectibility, liquidity, third party funds, and profitability is illustrated by the notion of trade-off between collectibility, liquidity, third party funds, and profitability. Banks must maintain a balance of reliable collectibility, liquidity, and third-party funding instruments on the one hand with their ability to generate profitable returns on the other (Rohman & Yanti, 2022).

B. Debt Restructuring

In general, sick companies have a large fixed interest burden as a result of careless financial policy mistakes, or because of the monetary crisis that affects all business sectors. The company has a debt to capital ratio that is too high, violating the normal general rules that are usually recommended in financial management. The amount of debt is much greater than the company's own capital. Debt restructuring management needs to review the debt payment schedule to postpone maturity, while urgently obtaining additional new debt to supply the company's cash needs. It is also common to negotiate the change from short-term to long-term debt. The same applies to the amount of interest that must be borne. Changing the unpaid interest burden into new debt is also often done. It could be up to the conversion of debt into creditor ownership of the company. There is even the possibility of a haircut, which is traditionally more common in the US than Europe. The company may, for example, offer to pay the debt now, but the company gets a haircut of a certain percentage.

Thus, the management of the sick company, in detail, must immediately reorganize the focus and scale of investments made, the mix between active and reserve investments, the composition of debt and equity, the amount of overhead costs, the distribution of investments for current and future needs, and wage policies. Ultimately, both debt restructuring and financial

C. Financial Performance

Company performance is the result or achievement achieved by the company in a certain period (usually one accounting period). One way that can be used to assess company performance is to conduct an assessment of financial performance through an analysis of financial statements prepared in accordance with Indonesian accounting principles. (Soemarsi, 2012) suggests that financial statements are reports designed for decision makers both inside and outside.

In analyzing the company's financial statements, ratio analysis is used. Ratio analysis is a way of analyzing using ratio calculations on quantitative data shown in the company's balance sheet and income statement. Analyzing the company's financial statements will be very helpful for analyzers to find out the financial condition and development of the company concerned. By analyzing the financial data of the past years with the current ones, the weaknesses and results that have been achieved will be known.

There are various kinds of ratio analysis that can be used by companies to assess various financial aspects. Ratio analysis used to assess the company's financial performance based on the subject matter is (1) the ability to earn profits (Profitability), (2) The ability to measure the effectiveness of the use of funds, (3) The ability to measure efficiency and cost effectiveness.

D. Hypothesis Development

Companies experiencing financial difficulties try to get out of this condition in a corporate action known as debt restructuring. Debt restructuring is also known as workout, which is a change in the agreement between the company and creditors (Brigham & Ehrhardt, 2017). (B. N. Greenwood et al., 2020) state that debt restructuring is a way to avoid company liquidation through an agreement with creditors with certain conditions. Meanwhile, according to (Ghosh, 2019) is an adjustment or rearrangement of

the debt structure that reflects an agreement with the debtor to plan for the fulfillment of its financial obligations. The purpose of debt restructuring is to provide support in the form of leeway for companies that are experiencing financial difficulties so that they can get out of these problems within a certain period (Cheng, 2015).

Debt restructuring can be done through court (in court) or without court (out of the court) (Silva & Saito, 2018). Debt restructuring through the court requires the company to submit a restructuring plan that must be approved by all creditors. In Indonesia, debt restructuring through the court follows the provisions of Law number 37 of 2004 concerning Bankruptcy and Suspension of Debt Payment Obligations (PKPU). Meanwhile, for out-of-court restructuring, the company simply asks each creditor directly.

The debt restructuring carried out has an impact on the company. Debt restructuring is expected to increase liquidity, improve capital structure, and improve financial performance, so that in the future it can operate better and be able to pay its debt obligations. Several studies show the impact of debt restructuring on companies. Debt restructuring has a significant effect on investor valuation (Kaur & Srivastava, 2017). A decrease in the amount of debt and a reduction in interest expense allows companies to expand their business and perform relatively better in the long run. In Serbia, debt restructuring by means of Debt to Equity Swap or debt to capital exchange has implications for lower debt ratios and debt payment obligations so that it has a positive effect on the company's financial performance.

(Jiang, J., Liu & Yang, 2019) shows that debt restructuring does not significantly increase the company's overall investment. This may occur due to differences in property rights, the nature of the industry, the model and amount of payment, and the characteristics of debt renegotiation. However, for state-owned companies, debt restructuring can significantly improve the efficiency of overinvestment. The amount restructured negatively affects investment efficiency. (Daisuke & Kazuhiko, 2016) analyzed the financial performance of companies experiencing financial difficulties by comparing temporary debt restructuring and permanent debt restructuring on their financial performance. Companies that temporarily restructure their debt have significantly worse financial performance than companies that experience permanent debt restructuring.

Based on the theory and results of previous research, this study will focus on the impact of debt restructuring on the financial performance of SOEs, which in this case the financial performance of SOEs is measured using profitability, liquidity, and solvency ratios. So the hypothesis in this study is as follows:

H1: debt restructuring has a significant effect on financial performance as measured by profitability.

H2: debt restructuring has a significant effect on financial performance as measured by liquidity.

H3: debt restructuring has a significant effect on sustainable growth rate.

RESEARCH METHODS

A. Population and Research Sample

The population of this study were all state-owned companies listed on the Indonesia Stock Exchange except for the banking and finance sector. The sample used is quantitative data, namely data measured on a numerical scale. The sample technique used in this study is purposive sampling method, which is a sample drawn using consideration. The data used in this study were obtained from Bloomberg in the form of SOEs financial report data during 2018 - 2022.

The data collection method used in this research is the documentation method, namely by collecting all secondary data and information needed. The data collected are data related to debt restructuring and financial ratios contained in the annual reports published on their respective websites.

B. Data Analysis Technique

This study uses multiple regression analysis to test the hypotheses proposed in this study. There are 3 (three) research models to be tested, namely model 1 to answer hypothesis 1, model 2 to answer hypothesis 2, and model 3 to answer hypothesis 3. The following is the research equation model developed in this study.

$$ROA_{it} = a_{it} + DER_{it} + DAR_{it} + LTDtER_{it} + e \quad \rightarrow Model\ 1\ (H_1)$$

$$CR_{it} = a_{it} + DER_{it} + DAR_{it} + LTDtER_{it} + e \quad \rightarrow Model\ 2\ (H_2)$$

$$SGR_{it} = a_{it} + DER_{it} + DAR_{it} + LTDtER_{it} + e \quad \rightarrow Model\ 3\ (H_3)$$

The independent variable in this study is debt restructuring as measured by 3 (three) proxies, namely Debt to Equity Ratio, Debt to Asset Ratio, and Long Term Debt to Equity Ratio. The purpose of using these three ratios is to see the addition of debt, assets and equity after the company restructures its debt. While the dependent variable in this study is financial performance as measured by the performance of profitability (ROA), liquidity (CR), and Sustainable Growth Rate (SGR). After hypothesis testing is carried out, further analysis of the test results is carried out to answer the proposed research hypothesis. The hypothesis

decision is supported if one of the debt restructuring proxies has a significance value <0.05 (level of significant 95%) and otherwise.

ANALYSIS AND DISCUSSION

A. Hypothesis Testing

Hypothesis testing in this study is to empirically test the effect of debt restructuring on the company's financial performance. In this analysis, there are 3 test results based on indicators to measure financial performance, namely in the first model (hypothesis 1) to test the effect of debt restructuring on financial performance as measured by profitability; the second model (hypothesis 2) to test the effect of debt restructuring on financial performance as measured by liquidity; and the third model (hypothesis 3) to test the effect of debt restructuring on sustainable growth rate. The test results can be seen in the following table.

Table 1. Hypothesis Testing Results

Model (*Dependen*)	**1 *(ROA)***		**2 (*CR*)**		**3 (*SGR*)**	
	Coeff B	***t- Stat (P-value)***	***Coeff B***	***t- Stat (P-value)***	***Coeff B***	***t- Stat (P-value)***
Const	5,672	5,086 (0,000)*	1,621	20,572 (0,000)*	4,852	9,397 (0,000)*
DER	-0,003	-0,308 (0,759)	-0,001	-2,060 (0,042)*	-0,005	-1,018 (0,311)
DAR	-0,141	-3,651 (0,000)*	-0,015	-5,377 (0,000)*	-0,047	-2,632 (0,010)*
LTDtER	-0,009	-0,767 (0,445)	0,002	2,532 (0,013)*	0,007	1.260 (0,210)
N	105		105		105	
F (Sig)	6,700 (0,001)*		19,822 (0,000)*		4,764 (0,004)*	
Adj R^2	0,225		0,352		0,098	

Source: Data processed 2024

Description: ROA: Return on Asset of company I in year t; CR: Current Ratio of company I in year t; SGR: Sustainable Growth Rate of company I in year t; DER: Debt to Equity Ratio of company I in year t; DAR: Debt to Asset Ratio of company I in year t; LTDtER: Long Term Debt to Equity Ratio of company I in year t.

B. Debt restructuring on profitability

Based on the results of hypothesis testing in table 1 for model 1 with hypothesis 1, namely the effect of debt restructuring on financial performance as measured by profitability in this case ROA. Of the three proxies for debt restructuring, namely DER, DAR, and LTDtER, only debt restructuring as measured by DAR has a significance of <0.05, these results indicate that debt restructuring as measured by DAR has a negative effect on the financial performance of SOES companies in Indonesia, which means that SOES companies that carry out debt restructuring can reduce their financial performance through profitability ratios as measured by return on assets.

The results of this study indicate that SOES that carry out debt restructuring in the long term do not have an impact on improving financial performance as measured by ROA, but vice versa. Although only the DAR proxy has a negative and significant effect on ROA, while the other two proxies DER and LTDtER have a negative but insignificant effect. This can be caused by the different strategies taken by each company after restructuring debt. The results of this study support the results of previous research by Gupta (2017) which states that there are changes in the company's profitability performance after restructuring debt caused by a shorter cash cycle, higher sales growth, increased fixed asset turnover, and a lower debt to asset ratio (DAR). This shows that management must be able to improve company policies, one of which is the policy of collecting debts so that the cash cycle is getting better and can increase sales in a sustainable manner which has an impact on improving the company's financial performance.

C. Debt restructuring on liquidity

Based on the results of hypothesis testing in table 1 for model 2 with hypothesis 2, namely the effect of debt restructuring on financial performance as measured by liabilities in this case CR. Of the three proxies for debt restructuring, namely DER, DAR, and LTDtER have a significance of <0.05, these results indicate that debt restructuring as measured by DER and DAR has a

negative effect on financial performance while and LTDtER has a positive effect on the financial performance of SOES companies in Indonesia, which means that SOES companies that carry out debt restructuring can reduce their financial performance through the liquidity ratio as measured by the current ratio.

The decline in the financial performance of SOEs that restructure debt can be caused by the use of restructuring methods by extending the maturity of debt payments (rescheduling), which means that there will be a change from short-term debt to long-term debt, thus allowing a decrease in the amount of short-term debt and having an impact on the company's liquidity. However, the change from short-term debt to long-term debt in the year of debt restructuring means that there will be new short-term debt in the period after debt restructuring. This means that there is only a delay in short-term debt to the next period, so that although there is a decrease in the current ratio caused by an increase in short-term debt, the difference is not significantly different.

D. Debt restructuring on sustainable growth rate.

Based on the results of hypothesis testing in table 1 for model 3 with hypothesis 3, namely the effect of debt restructuring on sustainable growth rate. Of the three proxies for debt restructuring, namely DER, DAR, and LTDtER, only debt restructuring as measured by DAR has a significance <0.05, these results indicate that debt restructuring as measured by DAR has a negative effect on the sustainable growth rate (SGR) of SOEs companies in Indonesia, which means that SOEs companies that restructure debt can reduce the sustainable growth rate.

SGR can be influenced by several variables, including environmental performance, debt policy and profitability. The higher the debt policy (leverage) as measured by Debt to Equity Ratio (DER), the less the use of own capital will increase the company's sustainable growth rate. Capital requirements are very important for companies to carry out operational activities. Companies must be wise when using capital for operational activities. Determining the source of capital has weaknesses and advantages. The optimal capital structure is one that can minimize the cost of capital and can maximize the value of the company. According to Brigham & Ehrhardt (2008), the optimal capital structure is a combination of money and equity that will maximize the stock price. In other words, companies must analyze all the factors that will affect the capital structure to obtain capital sources that minimize the cost of capital.

In this study, SOEs that restructure debt can reduce the sustainable growth rate (SGR) in the long term. This can be caused by a decrease in profit growth which causes a decrease in the company's financial performance. In addition, each SOES use of financial policies that differ from their desired growth direction can affect the capital structure, which results in a decrease in financial resources. This causes the expected growth rate to decrease every year. Thus, SOEs that restructure debt, if they do not utilize their capital properly, will have an impact on reducing the growth rate of their financial performance.

CONCLUSIONS

This study aims to examine the effect of debt restructuring on the financial performance of SOEs as measured by various financial performance measures. The results showed that in general, SOEs that restructure debt can reduce their financial performance as measured by profitability, liquidity and sustainable growth rate. SOEs that restructure debt are basically for the company's operational activities, but the use of excessive debt can cause the company to experience financial difficulties. Some SOEs have an impact on financial difficulties so that they are no longer able to pay their debts, so debt restructuring is carried out. Although the results in this study show that debt restructuring has a significant negative effect on financial performance, because basically debt restructuring has an impact on the use of short-term debt, so the chance of default for long-term debt is still quite large. Therefore, debt restructuring has an impact on reducing financial performance.

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