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The Effectiveness of Implementing Debt To Equity Swap as A Strategy For Performance Improvement and Non-Performing Loan Reduction

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Abstract

This study aims to evaluate the effectiveness of credit restructuring through Debt Equity Swaps (DES) as a strategy to reduce non-performing loans (NPLs) at PT SIER Puspa Utama, a subsidiary of PT SIER Surabaya. The research adopts a qualitative descriptive approach, utilizing observation and field data. Data were collected using interviews and documentation techniques. The data analysis involved qualitative methods to assess the restructuring strategies' effectiveness. The study reveals that PT SIER Puspa Utama faced significant financial difficulties due to improper credit management, leading to a substantial portion of operational capital becoming NPLs. These challenges hindered the company's ability to operate optimally, posing risks of business failure and impacting shareholder confidence. As part of a credit restructuring strategy, the implementation of DES effectively addressed these issues. The restructuring allowed the conversion of bad debts into share capital, improving financial stability and reducing NPL levels. The findings underscore the importance of strategic financial management in corporate sustainability. For companies facing similar challenges, DES can be a viable solution for mitigating financial distress and restoring operational efficiency. This study highlights the need for robust internal policies and strategic planning to manage credit risks and maintain investor confidence.

Keywords: Restructuration; debt; equity; swap; loan.

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Introduction

In recent years, SIER Puspa Utama, a subsidiary of PT SIER involved in real estate development, construction, and trading, has faced significant financial challenges. The most pressing issue is the consistent underachievement in revenue targets, as demonstrated by the company's performance from 2018 to 2021. The company's revenue target achievement has declined progressively, from 72% in 2018 to 41% in 2020, with an average revenue achievement of around 50%. This decline suggests underlying issues in the company's operational and strategic execution. Despite cost reductions, broader financial difficulties persist, including a significant equity deficit and cash flow issues arising from problematic projects. These challenges point to potential corporate governance and financial management failures, especially in handling borrowed funds and project execution. Governance and internal control deficiencies exacerbate the equity deficit and cash flow problems, further straining PT SPU's solvency (Anfas & Zainuddin, 2022). Moreover, the financial issues are linked to indications of fraud and governance problems, hindering the company's ability to capitalize on market opportunities (Van Driel, 2018). These issues highlight the need for more robust governance and financial oversight to stabilize the company's financial health and ensure sustainable growth.

Recent studies have highlighted the crucial role of robust corporate governance and financial management in preventing financial distress and ensuring sustainable business growth. According to Rahman & Bremer (2016), effective governance structures, including independent oversight and transparent financial reporting, are vital in mitigating fraud and financial mismanagement risks. Additionally, recent research by Lang & Petruzzi (2022) suggests that subsidiaries often face unique challenges compared to parent companies, particularly regarding inter-company transactions and the management of borrowed funds. This perspective is echoed by Febriansyah & Indirwan (2022), who emphasize the importance of strong internal controls in maintaining financial stability and integrity, especially in complex corporate structures like PT SPU. Despite these advances, significant gaps still need to be found in the literature, particularly concerning the specific challenges subsidiaries face. Many existing studies focus primarily on standalone or parent companies, leaving a void in understanding the dynamics within subsidiary entities. While extensive research exists on corporate governance and financial management, the unique implications of inter-company loans and equity deficits in subsidiaries still need to be explored. This gap is critical, as highlighted by Juliani (2022), who notes that inadequate governance frameworks can exacerbate financial vulnerabilities in subsidiaries. The limited focus on practical applications of governance principles in these contexts, particularly concerning fraud prevention and reliable financial reporting, underscores the need for further empirical research.

The existing literature reveals a significant gap between theoretical frameworks and the practical realities subsidiaries face in managing financial health and governance. While recent studies have advanced our understanding of corporate governance's role in economic stability, they often overlook the nuanced challenges subsidiaries encounter, particularly concerning inter-company transactions and equity management. For instance, Fung (2014) highlights that subsidiaries frequently need help with financial reporting accuracy due to complex corporate structures, which can obscure transparency and accountability. The limited autonomy of subsidiaries compounds this issue in decision-making, as noted by Hogianto (2023), who argues that the parent company's influence can often lead to conflicting interests that affect the subsidiary's financial performance. The focus on standalone firms in most governance research has led to a lack of empirical data on how subsidiaries can implement robust internal controls tailored to their unique circumstances. There is a pressing need for studies that specifically address the governance challenges faced by subsidiaries, including the risks of fraud and mismanagement due to insufficient oversight. This gap is particularly evident in financial distress caused by inadequate governance practices, which can lead to significant equity deficits and liquidity issues.

Based on the identified gaps in the literature, this study aims to investigate the specific financial and governance challenges that subsidiaries face, mainly focusing on inter-company borrowing, equity deficits, and internal control mechanisms. The research addresses the following questions: How do inter-company loans affect the financial stability of subsidiaries? What governance mechanisms effectively prevent financial mismanagement and fraud within these entities? How can subsidiaries enhance their capital structure and financial reporting practices to reduce risks and improve transparency? The novelty of this study lies in its detailed focus on subsidiaries, an area that has yet to be extensively covered in corporate governance literature. By examining the unique challenges these entities face, such as the influence of parent companies and the complexities of financial arrangements, this research seeks to provide new insights into effective governance and financial management practices for subsidiaries. This study aims to fill a critical gap by offering practical recommendations for improving internal controls, enhancing the accuracy of financial reporting, and establishing robust governance practices. These findings are intended to support subsidiaries in achieving more excellent financial stability and leveraging market opportunities more effectively, thereby contributing valuable knowledge to corporate governance and instilling a sense of hope and optimism for the future.

Literature Review

Problem Debt and Credit Theory

Debt is a critical financial concept that involves lending money and services by one party to another, resulting in an official obligation arising from written or oral agreements (Li & Xu, 2022). In corporate finance, debts are typically classified based on their repayment period. Current liabilities are debts expected to be paid within one year or one normal operating cycle of the company, usually utilizing current assets (Sobiech & Sobiech, 2022); (Permana, 2020). On the other hand, long-term liabilities are obligations whose repayment extends beyond one year (Akbar, 2022). This classification is crucial for understanding an organization's liquidity and financial stability. A significant aspect of debt management is the phenomenon of problematic credit, often referred to as non-performing loans (NPLs) (Anshar, 2023). Problematic credit arises when a customer cannot meet the payment terms agreed upon with the creditor. This situation can be due to various internal and external factors. Internal factors may include negligence or errors on the part of the bank or creditor, which can inadvertently trigger credit problems (Essers et al., 2021). For instance, inadequate credit assessment procedures or poor monitoring of borrowers' financial health can lead to a higher incidence of non-performing loans. External factors, such as economic downturns, regulatory changes, or shifts in market conditions, can also impact a debtor's ability to fulfill their obligations, further exacerbating credit issues.

The consequences of problematic credit are manifold and can have significant implications for financial institutions. One major impact is the reduction in bank profits or losses. This reduction is often attributed to a decrease in income from credit interest, as the bank may be unable to collect expected payments from defaulting borrowers (Wei et al., 2023); (Hu, 2022). Additionally, an increase in the Bad Debt Ratio indicates a growing proportion of non-performing assets relative to total productive assets. This situation necessitates higher provisions for potential credit write-offs, further eroding bank profits (Cao et al., 2018). The need for substantial reserves to cover these losses is an additional burden on financial institutions, as it ties up capital that could otherwise be used for lending or investment. Problematic credit can adversely affect critical financial performance indicators such as Return on Assets (ROA) and Equity (ROE) (Wahyuni et al., 2023). A decline in profits due to higher non-performing loans leads to lower ROA and ROE since these metrics are closely linked to the profitability and efficiency of an institution's use of its assets and equity (Liu et al., 2021). The deterioration of these ratios can signal to investors and stakeholders that the institution is experiencing financial distress, potentially leading to a loss of confidence and further financial instability.

The issue of non-performing loans is particularly critical in the banking sector, where the health of the credit portfolio is a direct indicator of the institution's overall financial health. As banks must maintain a specific capital adequacy level, increasing provisions for bad debts can strain their capital reserves. This strain can limit the bank's ability to extend new credit, thus impacting its growth and profitability. High non-performing loans can lead to insolvency in severe cases, necessitating regulatory intervention or restructuring. Addressing problematic credit requires a multifaceted approach, including preventive and corrective measures. Preventive measures involve strengthening the credit assessment process, improving the monitoring and management of loan portfolios, and implementing robust risk management frameworks. According to Wong & Yu (2022), enhancing the rigor of credit evaluations and ensuring that loans are granted based on sound financial assessments can significantly reduce the incidence of non-performing loans. Banks must adopt proactive monitoring strategies to identify potential credit risks early and take timely corrective actions. Corrective measures, on the other hand, involve dealing with existing non-performing loans. This can include restructuring the loan terms to make repayment more manageable for the borrower or, in some cases, writing off the loan if recovery seems unlikely. Managing non-performing loans also often involves working with specialized agencies or departments within the bank tasked with recovering bad debts. Such measures are crucial for minimizing the impact of non-performing loans on the bank's financial performance and stability.

The literature emphasizes the critical role of regulatory frameworks in managing problematic credit, where regulatory bodies are crucial in setting standards for credit risk management and ensuring that banks adhere to prudent lending practices. These regulations typically include requirements for maintaining adequate capital buffers, conducting stress tests, and transparently reporting non-performing loans. For instance, Li & Xu (2022) highlight that stringent regulations can mitigate the risk of problematic credit by ensuring banks maintain sufficient capital reserves to absorb potential losses. Wong & Yu (2022) also argue that transparency in reporting non-performing loans enhances accountability and encourages the adoption of better risk management practices. Sobiech & Sobiech (2022) underscore the importance of regular stress testing, which allows banks to identify and address risks before they escalate into more significant issues. Liu et al. (2021) emphasize that compliance with these regulations is essential for maintaining the overall stability and integrity of the financial system. Without strict regulations and consistent compliance, the risk of problematic credit can increase, jeopardizing the financial stability of individual banks and the broader economic stability. Therefore, effective regulation and compliance are foundational to maintaining the financial system's health and preventing the negative impacts that poorly managed problematic credit can cause.

Debt restructuring

Debt restructuring is a crucial financial strategy that involves adjusting or rearranging a debtor's obligations to allow the debtor to manage and fulfill their financial responsibilities. According to (Xia & Gan, 2021), debt restructuring is a process that allows debtors to reorganize their debt structure to manage financial difficulties better. This process can involve legal actions or agreements between the concerned parties, significantly impacting the debtor's ability to meet financial obligations. Qing et al. (2016) further elaborate that debt restructuring can include converting short-term debt into long-term debt, reflecting a voluntary financial management decision to improve the debtor's financial stability. Several methods can be employed to address problematic mortgages through debt restructuring. Liu et al. (2021) identify five primary approaches: rescheduling, reconditioning, restructuring, combining these methods, and execution. These methods provide flexibility and options for debtors facing financial difficulties, allowing them to find a feasible path to debt repayment. Longobardi & Pedone (2018) expands on these strategies, outlining additional approaches such as haircut, interest exemption, debt rescheduling, asset transfer to pay off debts, converting debt into convertible bonds, and Debt to Equity Swaps. These methods offer various avenues for debtors to restructure their financial obligations in ways that align with their financial capabilities and market conditions.

The implementation of debt restructuring presents numerous challenges. As highlighted by Permana (2020), one significant obstacle is the need for more clarity regarding the restructuring formula, which can cause delays in the process (Essers et al., 2021). Additionally, debt restructuring often requires considerable time because it involves obtaining decisions from multiple creditors, making the process lengthy and complex (Wei et al., 2023). This complexity is further compounded by the necessity for debtors and creditors to reach a mutual agreement, frequently demanding significant sacrifices from both parties (Hu, 2022). Moreover, debtors typically have both foreign and domestic debts, necessitating a simultaneous settlement process that can be challenging to coordinate (Xia & Gan, 2021). The varying difficulty levels associated with different debt issues also add to the complexity of debt restructuring efforts (Cao et al., 2018). Each debt situation can present unique challenges, requiring tailored solutions and adding complexity to the restructuring process (Limoa & Weku, 2024). These challenges underscore the importance of having clear guidelines and effective communication among all stakeholders involved in the debt restructuring process. Effective coordination and cooperation between creditors and debtors are crucial for overcoming these obstacles and successfully restructuring. Addressing these challenges requires a comprehensive understanding of the specific circumstances of each case and a willingness from all parties to engage in constructive negotiations to facilitate a smooth and effective restructuring process (Andanika, 2024).

The various strategies for debt restructuring serve different purposes and are selected based on the specific circumstances of the debtor and the nature of the financial difficulties faced. Rescheduling involves extending the repayment period of the debt, which can provide temporary relief to the debtor by reducing immediate financial pressures (Andini, 2018). Reconditioning typically includes modifying the terms of the debt, such as interest rates or repayment schedules, to make them more manageable for the debtor (Kornelis & Amboro, 2020). In a broader sense, restructuring may involve more comprehensive changes to the debt arrangement, including rescheduling and reconditioning efforts. Combining these methods may achieve the desired outcome, providing a customized solution that addresses the debtor's unique situation. Execution, although more drastic, involves the enforcement of debt repayment through legal means, which can include the seizure and sale of assets to satisfy the debt. In addition to these methods, Longobardi and Pedone (2018) suggest several other innovative approaches. Haircuts involve reducing the principal amount of the debt, which can provide immediate financial relief to the debtor. Interest exemptions can also alleviate financial pressures by reducing the cost of borrowing. Debt rescheduling remains a fundamental strategy, while asset transfers and converting debt into convertible bonds offer alternative means of satisfying debt obligations. Debt-to-equity swaps, where debt is exchanged for equity in the debtor's company, can provide a mutually beneficial solution that aligns the interests of creditors and debtors (Permata, 2023).

Despite these strategies, the successful implementation of debt restructuring often hinges on overcoming several key obstacles. A clear restructuring formula can create certainty and speed up the process (Essers et al., 2021). The involvement of multiple creditors can complicate negotiations, as each creditor may have different priorities and risk tolerances (Wei et al., 2023). The complexity of the process itself, coupled with the need for mutual agreement and sacrifice, can further hinder progress (Hu, 2022). Furthermore, the presence of both foreign and domestic debts adds complexity. Coordinating the settlement of these debts simultaneously can be challenging, requiring careful negotiation and coordination (Xia & Gan, 2021). The varying difficulty levels associated with different debt problems necessitate tailored solutions to address specific issues effectively (Cao et al., 2018). Debt restructuring is also influenced by the regulatory environment and the economic conditions within which it is undertaken. Effective regulatory frameworks can facilitate restructuring by providing clear guidelines and support mechanisms for debtors and creditors (Ndruru et al., 2024). Conversely, a lack of regulatory clarity can impede the process and create additional challenges. Economic conditions also play a critical role. During periods of economic stability, debt restructuring can be more manageable as debtors and creditors are likely to be more flexible and cooperative. However, during economic downturns, the process can become more contentious and challenging, with heightened financial pressures exacerbating all parties' difficulties.

Research Design and Method

This study adopts a qualitative research design focusing on field research methods. The researcher utilizes observational techniques, relying on direct observations facilitated by the senses, to gather empirical data. This research aims to assess the effectiveness of credit restructuring in reducing non-performing loans at PT. Surabaya Industrial Estate Rungkut (SIER) Surabaya, with a particular focus on the case of PT. SIER Puspa Utama in East Java. The sample population for this study comprises critical individuals within the management structures of both PTs. SIER Surabaya and PT. SIER Puspa Utama. This includes the Managing Director, Financial Manager, Operational Manager, and other relevant personnel involved in these organizations' financial and operational decision-making processes. These individuals were selected for their direct involvement in the credit restructuring processes and their ability to provide insights into the effectiveness of these measures. Data collection in this study employs a combination of interviews and documentation review. Interviews are conducted with senior management from both companies, including operational managers and financial directors, to obtain a balanced and comprehensive view of the credit restructuring efforts. The semi-structured interviews allow the researcher to guide the discussion while enabling respondents to elaborate on their experiences and perspectives. This method ensures that the data collected focuses on the research objectives and is comprehensive. Additionally, the researcher reviews relevant documents, such as organizational archives and agreements between PT. SIER Surabaya and PT. SIER Puspa Utama, to supplement the interview data and provide contextual understanding. The development of data collection instruments involved creating interview guides tailored to explore the research questions comprehensively. These guides ensured that the discussions remained relevant and focused on the critical aspects of credit restructuring and its effectiveness in reducing non-performing loans. Data analysis is conducted using a deductive approach, starting from general observations and narrowing down to specific conclusions. The analysis process involves several steps: first, reviewing and organizing data from interviews and documents; second, reducing data through abstraction to highlight core themes related to the effectiveness of credit restructuring; third, categorizing data into units such as implementation effectiveness and problem loan reduction; fourth, verifying the validity of the data through triangulation and cross-checking responses; and finally, interpreting the findings to conclude. This structured approach ensures rigorous analysis, and the findings are reliable and well-substantiated.

Results and Discussion

Result

The study investigates the implementation of Debt Equity Swap (DES) as a strategic measure to address financial distress at PT SIER Puspa Utama (SPU), with a particular focus on its potential to reduce non-performing loans (NPLs) and enhance overall corporate performance. Data collected from interviews with key management personnel at PT SIER and PT SPU, along with members of the Special Work Unit Team overseeing the restructuring process, provides a detailed understanding of the challenges and outcomes associated with DES. The analysis identifies a significant contributor to NPLs at PT SPU: a substantial decline in business turnover. This decline was primarily due to mismanagement of financial resources, including unwarranted increases in executive salaries and inappropriate budget allocations. These mismanagement practices strained the company's cash flow and led to prolonged debt servicing difficulties, further destabilizing the company financially (Essers et al., 2021); (Hu, 2022). Interviews underscored that failure to adhere to sound financial practices, such as prudent investment and budget management, was a crucial factor contributing to the accumulation of NPLs. The study highlights the importance of implementing effective financial management strategies and transparent governance to mitigate risks and enhance corporate stability.

Operational failures in PT SIER Puspa Utama's (SPU) core activities, particularly in construction and trade, significantly worsened the company's financial difficulties. The construction projects undertaken by PT SPU often failed to meet investor expectations, primarily due to delays and cost overruns. These issues frequently arose from changes in project specifications that needed to be more effectively communicated or managed, resulting in misunderstandings and increased costs (Longobardi & Pedone, 2018). PT SPU's lack of competitiveness in the trading sector was evident as the company consistently priced its products higher than its competitors. This pricing strategy ignored crucial market factors such as price sensitivity and competitive dynamics. The failure to consider these factors reduced PT SPU's market share and negatively affected its profitability and long-term viability (Xia & Gan, 2021); (Cao et al., 2018). The company's inability to adapt its pricing strategy and operational management to the competitive landscape highlighted a strategic oversight that compounded its financial instability. The study suggests that addressing these operational inefficiencies and aligning pricing strategies with market realities are crucial to improving the company's financial health and sustainability.

Another significant issue identified was the need for more transparency in financial reporting. The study found that financial reports could have been more concise or more adequately detailed, preventing effective oversight by PT SIER. This lack of transparency hindered the identification and timely resolution of financial issues, further exacerbating the company's challenges (Liu et al., 2021); (Wei et al., 2023). Effective financial reporting is crucial for maintaining investor confidence and ensuring stakeholders are adequately informed about the company's financial health. In response to these challenges, a Debt-to-Equity Swap (DES) was proposed as a strategic intervention. A DES involves converting existing debt into equity, thereby reducing the debt burden on the company and potentially stabilizing its financial situation. This approach offers several benefits, including immediate relief from debt servicing obligations, which can free up cash flow for other operational needs (Xia & Gan, 2021); (Liu et al., 2021). By converting debt to equity, PT SPU could also improve its balance sheet metrics, such as leverage ratios, making the company more attractive to investors and potentially reducing the cost of future capital. Additionally, involving creditors as equity stakeholders align their interests with the company's long-term success, potentially leading to enhanced governance and more stringent financial oversight. This strategic realignment addresses the immediate financial pressures and the underlying operational inefficiencies, positioning PT SPU for sustainable growth and improved financial stability.

Moreover, involving creditors as equity holders align their interests with the company's long-term success. This alignment can enhance governance and oversight, as creditors-turned-shareholders are more likely to take an active interest in the company's strategic direction and financial management (Cao et al., 2018); (Hu, 2022). This shift can lead to better decision-making processes, more stringent financial controls, and a more robust strategic framework, all essential for sustainable growth and profitability. However, the successful implementation of a DES strategy is contingent on several critical factors. Firstly, it requires the willingness of creditors to accept equity in exchange for debt. This willingness is often based on their confidence in the company's future performance and the potential for equity appreciation. For PT SPU, convincing creditors to participate in the DES required transparent communication of the company's strategic plans and a demonstrated commitment to improving operational efficiencies and financial management (Wei et al., 2023). Secondly, the company must have a viable business model and a clear path to profitability to justify converting debt into equity. This viability is crucial for attracting and retaining investors and ensuring that the DES does not merely postpone financial difficulties. For PT SPU, this meant addressing the underlying issues in its business operations, such as improving competitiveness in the trading sector and enhancing project management capabilities in the construction sector. Additionally, there was a need for a comprehensive review and overhaul of financial reporting practices to ensure accuracy, transparency, and accountability (Permana, 2020); (Sobiech & Sobiech, 2022).

The DES strategy also required careful management of stakeholder expectations. As new equity holders, former creditors needed assurance that their investments would be protected and that the company was on a path to recovery. This required regular and transparent communication from the management team about the company'scompany's performance, strategic initiatives, and financial health (Xia & Gan, 2021). Ensuring all stakeholders understood the DES process and its intended outcomes was critical for maintaining confidence and support. While the DES can effectively reduce NPLs and improve corporate performance, it is not a panacea. The success of a DES depends on the broader context of the company's financial health, market conditions, and the effectiveness of its management team. For PT SPU, the DES provided a much-needed opportunity to restructure its finances, improve cash flow, and realign its strategic priorities. However, it also highlighted the need for continuous operational and financial management improvement.

Discussion

Impact of Implementing Restructuring System

In handling problem loans, PT. As a holding company, SIER is taking steps to resolve problem loans by credit restructuring to reduce the number of loan problems. Based on the results of the researcher'sresearcher's interview with the Problem Credit Restructuring Team, the handling of problem credit for problem debtors is carried out when the debtor begins to enter collectibility two or the Special Attention group, namely debtors who are late in fulfilling their obligations up to 180 - 360 days. So, the treatment carried out is, firstly, PT. SIER will contact and carry out a billing to fulfill obligations intensively, directly or indirectly, and then the financial officer of PT. SIER also provides a bill as a Debtor Visit Report (LKD), which contains data regarding obligations that PT must complete. SPU as a debtor. However, after the procedure is carried out and PT, SPU, as the debtor, has not fulfilled its obligations, then the Problem Credit Restructuring Team (TRKB) from PT. SIER will visit PT. SPU will take an approach to find out the cause of PT. SPU cannot fulfill its obligations to PT. SIER. On this occasion, TRKB PT. SIER will offer credit rescue with credit restructuring on the terms of PT. SPU has good faith and has good business prospects. Generally, the credit restructuring offered is by rescheduling, namely by increasing the period for fulfilling or completing obligations and reducing the number of commitments by the PT'sPT's capabilities. SPU after restructuring.

However, after the assessment has been carried out, it has entered collectability 3 (360 - 480 days) to collectability 4 (480 - 660 days), then PT. SIER, as the parent company, is no longer able to provide credit restructuring offers with rescheduling; this is because, based on company regulations and the GMS (General Meeting of Shareholders), if the credit restructuring goes according to an agreement, then it can only increase the debtor'sdebtor's collectability by one level above the previous collectability. For example, if a collectability two debtor undergoes credit restructuring and is successful, it will become collectability 1 (current), according to TRKB PT. This SIER becomes more effective and efficient if applied to customers who enter collectability 3 to collectability 5. When a debtor enters collectability 3, they will be given warning letters or Warning Letters I, II, and III periodically as long as there is still no fulfillment of obligations, PT. SIER, which TRKB PT represents in this case. SIER must continue to visit PT's business premises. SPU and gave a warning to PT. SPU must immediately fulfill its obligations before being given the next bill.

However, if obligations are fulfilled after being given a Warning Letter III, PT SIER will examine PT. SPU files. Credit will be restructured by executing collateral or rescuing credit through legal channels, either through a simple lawsuit (GS) or an auction of PT-owned assets. SPU. To carry out a simple lawsuit, you must pay attention to several things that are required for a simple lawsuit: the debtor'sdebtor's collateral or guarantee that has not been tied to a Mortgage (HT) PT SPU guarantee is in the corporation'scorporation's name and has been given warnings I, II and III. Meanwhile, asset auctions are carried out when the assets and working capital of PT. SPU has mortgage rights tied to it. However, when intensive negotiations were carried out, TRKB PT. SIER has another way, namely by selling guarantees privately or not through auction, here through negotiations between PT. SIER and PT. SPU agreed to sell several assets owned by PT. SPU together to be able to fulfill its obligations towards PT. SIER. Then, when fulfilling the duties of PT. SPU has entered collectability for 5 (>660 days) or has become a bad credit, which means that it is no longer possible to save credit either by credit restructuring through rescheduling (rescheduling) or credit restructuring through executing asset collateral using a simple lawsuit and asset auction, then the PT. SIER will include PT. SPU will be added to the list of Companies with Problematic Credit Status (PSKB) to stop the obligations that PT must fulfill. SPU against PT. SIER and classify it as bad credit.

TRKB PT. SIER will then report PT. SPU as PSKB to the ranks of Directors and Commissioners of PT. SIER, PT. SPU, which has been included in the list of companies with problematic credit status, will have several assets and detained working capital. Assets and working capital can be taken back if PT. SPU has fulfilled its obligations to PT. SIER. Apart from that, PT. SPU, included in the Companies with Problematic Credit Status list, will not receive additional working capital from PT. As the parent company, SIER will return anytime to request additional working capital. Meanwhile, if the PT file. SPU has entered the PSKB so that PT. SIER will bear all obligations and losses. Based on the data obtained and data processing results by researchers with TRKB PT. SIER, it can be seen that there has been a decrease in the level of non-performing loans from 2020-2023 as follows:

In 2019, the percentage of PT. SPU against PT. SIER reached 39.4%, and then, in 2020, there was a decrease in bad credit to 32.88%, meaning there was a decrease of 6.52% due to PT. SPU against PT. SIER will provide an injection of funds as additional business capital for business development, amounting to IDR 3.94 billion. The credit percentage level decreased, but so did the amount of PT. SPU credit increased; PT offset this. SIER increasing total loans disbursed. Furthermore, in 2021, there was a decrease in the NPL level from 32.88% to 29.76%; in the following year, it fell to 3.12%. This is because all business and industrial sectors are experiencing business stagnation due to the COVID-19 pandemic—working capital owned by PT. SPU does not move but is used to cover or fulfill its obligations to PT. SIER. In 2022, there will be an increase in bad loans at PT. SPU was 39.14%, or an increase of 9.38%. This is because, in 2022, the implementation of credit restructuring in rescheduling or reconditioning cannot be fulfilled or carried out well. PT. SPU is still unable to fulfill its obligations to PT. SIER with these two restructuring scheme models. However, in 2023, the level of non-performing loans owned by PT will be higher. SPU is increasing by 43.77%, or an increase of 4.63% from 2022. This is by PT. As the parent company, SIER is considered a critical condition for the survival of the subsidiary it finances, in this case, PT. SPU. So, to save PT. SPU, through consultations with various business and financial experts, meetings of directors and commissioners, and considerations from other stakeholders deemed eligible and relevant, decided that the final restructuring step would include all of PT. SPU's bad debts become the share capital of PT. SIER, or what is usually called a debt-to-equity swap with this restructuring model, the level of bad loans is hoped to be 0.

Explanation regarding the reduction in the level of bad loans owned by PT. SPU, if the debt-to-equity swap model is restructured, is also strengthened by the presentation given by TRKB PT. SIER, namely the emergence of optimism from the board of directors and commissioners of PT. SIER because of PT. SIER has effective control and supervision over the implementation or business activities carried out by PT. SPU is by PT. SIER internal regulations., PT. SIER makes all efforts to reform the process of restructuring bad loans to become a strategy for reducing the problem loans at PT. SPU runs according to the objectives of PT. SIER is the parent company. PT. SIER also supported this PT. SPU still has good faith in carrying out credit restructuring, which can impact decreasing the level of NPL or non-performing loans at PT. SIER, with these data, implemented credit restructuring against PT. SPU can effectively reduce non-performing loans, even though non-performing loans are at PT. SPU is still relatively high considering that PT. SIER is a government-owned company or BUMN, so PT. SIER morally and legally must control and reduce the number or level of problem loans that occur in subsidiaries, in this case, PT. SPU uses a credit restructuring strategy and is always balanced with an increase in total investment provided by PT SIER for efficient and effective business development.

Analysis of the Effectiveness of Implementing Credit Restructuring as a Strategy for Reducing Problematic Credit

Based on the results of research conducted by researchers at PT. SIER is the implementation of credit restructuring to reduce problem loans carried out by PT. SIER has been carried out persuasively and in a friendly manner towards PT. SPU, as the debtor, is rescuing problem loans through legal channels for debtors who are no longer cooperative to reduce the level of problem loans experienced by PT. SIER. With the implementation of credit restructuring as a strategy to reduce non-performing loans by the standards and policies for managing non-performing loans that PT. SIER has been implemented. PT. SIER is expected to achieve its goals and targets as the parent company meets expectations. PT. SIER benchmarks can be seen based on the theory and data processing researchers carried out. Determining the effectiveness of implementing credit restructuring to reduce non-performing loans is done by looking at the movement in fulfilling PT. SPU's sSPU's obligations, or in this case, by analyzing bad credit at PT. SPU, in this case, the researcher looks at the movement of PT. SPU's credit level needed to be more consecutively sufficient from 2019 to 2023. The research results show that from 2019 to 2023, the percentage of harmful credit levels at PT SPU can fluctuate but is increasing, namely in 2019, the rate of PT. SPU against PT. SIER reached 39.4%, and then, in 2020, there was a decrease in bad credit to 32.88%, meaning there was a decrease of 6.52% due to PT. SPU against PT. SIER will provide an injection of funds as additional business capital for business development, amounting to IDR 3.94 billion. The credit percentage level decreased, but so did the amount of PT. SPU credit increased; PT offset this. SIER'sSIER's increasing total loans disbursed. Furthermore, in 2021, there was a decrease in the NPL level from 32.88% to 29.76%; in the following year, it fell to 3.12%. This is because all business and industrial sectors are experiencing business stagnation due to the COVID-19 pandemic—working capital owned by PT. SPU does not move but is used to cover or fulfill its obligations to PT. SIER.

In 2022, there will be an increase in bad loans at PT. SPU was 39.14%, or an increase of 9.38%. This is because, in 2022, the implementation of credit restructuring in rescheduling or reconditioning cannot be fulfilled or carried out well. PT. SPU is still unable to fulfill its obligations to PT. SIER with these two restructuring scheme models. However, in 2023, the level of non-performing loans owned by PT will be higher. SPU will continue to increase by 43.77%, or an increase of 4.63% from 2022. PT. SIER does this as the parent company is considered a critical condition for the survival of the subsidiary's subsidiary's finances, in this case, PT. SPU. An explanation was obtained from the researcher's interview with TRKB PT. SIER is the implementation of credit restructuring as a strategy to reduce problem loans carried out by PT. SIER is effective because its implementation is based on procedures and policies that have been determined by the company internally through meetings of directors and commissioners and GMS decisions. This effectiveness can be proven by the success in making all liabilities and assets owned by PT. SPU becomes share capital (debt to equity swap) in PT. SIER, thus resulting in a decrease in non-performing loans. This decrease was caused by the effective implementation of credit restructuring carried out by PT. SIER, where PT. SIER is making serious efforts to restructure credit by monitoring or supervising PT. SPU was the debtor, who then carried out an evaluation, analysis, and review of PT. SPU is a problematic debtor in finding the problems in PT. SPU's business management needs help fulfilling all obligations towards PT. SIER, once this is known and obtained, this information becomes the basis for PT. SIER in determining PT. One of the SPU credit rescue methods is credit restructuring, which will be carried out persuasively or through legal channels to avoid lousy credit at PT. SPU.

Meanwhile, after implementing credit restructuring, banks must further enhance the principle of prudence in financial risk management. This improvement is expected to improve the quality of PT SIER'sSIER's internal risk management, thereby supporting the effectiveness of credit restructuring in reducing problem loans experienced by PT SPU. Additionally, it aims to prevent bad credit from escalating to a status of non-performing credit. This study indicates that PT SIER has effectively executed credit rescue measures by Company Regulation No. 06/14/SIER/2003 concerning credit restructuring. These regulations outline seven methods for credit restructuring: reducing payment obligations with an extension of time, reducing arrears from business profits, reducing principal arrears on payment obligations, extending the period for fulfilling commitments, adding credit facilities, taking debtor assets according to applicable regulations, and converting credit into equity participation in share capital. These strategies collectively aim to provide a structured approach to managing and mitigating credit risks. By adhering to these measures, PT SIER can better manage its financial stability and reduce the incidence of non-performing loans. The practical implementation of these credit restructuring strategies demonstrates PT SIER'sSIER's commitment to maintaining financial health and operational efficiency. It also highlights the importance of rigorous risk management practices in ensuring the the company's and its subsidiaries' long-term sustainability.

Conclusions

This study investigated the credit restructuring efforts of PT SIER, focusing on reducing non-performing loans (NPLs) at PT SPU. The research found that PT SIER implemented credit restructuring by internal company regulations and the General Meeting of Shareholders (GMS) directives. The restructuring methods included rescheduling, extending repayment periods, and adjusting obligations based on the debtor's financial capacity. Legal channels such as asset auctions or simple lawsuits were utilized in cases where these measures were insufficient, notably when PT SPU reached higher collectability levels. Ultimately, when PT SPU could not meet its obligations through these means, a debt-to-equity swap was employed, converting debts into share capital for PT SIER.

The value of this research lies in its contribution to understanding the practical and managerial implications of credit restructuring strategies in corporate finance. The study highlights the importance of flexible and adaptive approaches in managing NPLs, emphasizing the need for tailored solutions that consider the unique circumstances of each debtor. This research underscores the originality of the study by focusing on a comprehensive approach to credit restructuring that includes legal, financial, and managerial strategies. It also stresses the practical implications for businesses, which include the need for robust internal policies, effective communication, and strategic planning to handle financial distress situations effectively. These are not just theoretical concepts, but actionable strategies that businesses can implement based on the findings of this research.

However, the study has limitations, including focusing on a single company and its subsidiary, which may not fully capture the diversity of restructuring strategies applicable in different contexts. Future research should expand the scope to include multiple companies and industries to generalize the findings. Additionally, longitudinal studies could provide deeper insights into the long-term effects of credit restructuring on corporate financial health. Researchers are encouraged to explore the impact of external economic factors and regulatory changes on the effectiveness of restructuring strategies, offering a broader understanding of the dynamics involved in managing corporate credit risks.

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