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FORMULATION PROCESS OF TURNAROUND STRATEGY TO OVERCOME FINANCIAL DISTRESS IN PT. PN

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Abstract: **This study aims to find out how the process of formulation of turnaround strategy that was undertaken by PT. PN in the face of financial distress. The type of this research is quantitative descriptive with data collection method through non participant observation and unbounded interview. The scope of the study was taken from the time of PT. PN experienced financial distress up to the implementation of turnaround strategy (2006-2012). As a result of the formulation, the turnaround strategy undertook by PT. PN is divided into two strategies: strategic turnaround strategy and operating turnaround strategy. Strategic turnaround strategy is debt restructuring in the form of debt to equity swap for non-bank lenders and debt rescheduling for bank creditor. Meanwhile, operating turnaround strategy is streamlining company assets, streamlining human resources, increasing revenues, and turnover of company management. Implementation of this strategy in 2012 shows improvements in the Altman Z-score, but its value is still in the possibility of bankrupt zone.**

Keywords: **Distress, Financial, Formulation Process, Operating Turnaround, Strategic, Turnaround.**

I. INTRODUCTION

PT. PN was established in 2002 which initially focused to manage a hotel that is Hotel NK. Hotel NK is the only three-star hotel as the only *MICE (Meeting, Incentive, Convention, and Exhibition) Hotel* located in downtown Denpasar. This makes NK Hotel always is full of *meeting*, seminar, *wedding* and *events* other. In its later development, PT. PN develops its business in other areas of Hospitals and Schools of Hospitality.

In 2007, PT. PN decided to undertake a major project of establishing a new hotel much larger than previously owned hotels. This decision was taken by looking at the market potential that was not explored by Hotel NK. Hotel NK as a hotel with facilities equivalent to 3 stars hotel, that is, unable to capture the MICE market that is intended for 4 and 5 stars hotels. Realizing the existence of a large market potential, PT. PN decided to build AD Hotel. AD Hotel is built with the concept of condotel, which is a concept of hotel development with each room will be sold to different investors, and then hired back by the company to function as a hotel room. One of the goals of conducting this condotel concept is to reduce the need for investment funds, because each room has investors from outside the company. However, a new liability will arise in the form of rental fees to the owner of the condotel. Condotel concept is something new for Denpasar at that time.

Platt and Platt [1] define *financial distress* as a decline in financial conditions that occurred prior to the occurrence of bankruptcy or liquidation. *Financial distress* is a condition that reflects the problems with corporate liquidity which if left unchecked will cause bigger problems i.e. the company becomes not *solvable* and eventually went bankrupt [2]. The tendency of the occurrence of *financial distress* can be seen in TABLE: I Position Report and Financial Performance of PT. PN from 2006 to 2010.

TABLE I: Position and Financial Performance Report of PT. PN Year 2006 to 2010 (Expressed in thousands of rupiah)

Description	2006 Audited	2007 Audited	2008 Audited	2009 Unaudited	2010 Unaudited
Balance Sheet Components					
Cash & Cash Equivalents	87.530	920.567	355.991	174.631	1.211.077
Total assets	51.906.246	116.458.447	161.995.861	228.421.468	283.949.092
Current Total Liabilities	4.107.350	9.554.381	6.900.990	35.647.322	25.602.850
Total Debt	46.109.159	110.330.223	155.554.867	236.862.913	297.481.864
Total Equity	5.797.087	6.128.224	6.440.994	-8.441.445	-13.532.772
Component of Profit Loss					
Income	11.966.906	13.726.179	14.583.621	31.355.847	40.324.789
Cost of goods sold	4.187.866	6.100.851	5.308.795	4.214.172	6.488.555
Total Operating Expenses	4.052.195	4.230.011	5.761.751	41.957.790	20.331.754
Business Profit (Loss)	3.726.845	3.395.317	3.513.076	-14.816.115	13.504.480
Other Income (Expenses)	-3.138.796	-2.947.263	-3.091.262	66.325	10.739.432
Rent Condotel Ownership					7.856.375
Net Profit (Loss)	429.134	331.138	312.770	-14.749.790	-5.091.326

(Source: Secondary data processed, 2018)

The studies related to the prediction of *financial distress* companies generally use the financial ratios derived from the company's financial statements. The financial statements can be used as a basis to measure the health of a company through the financial ratios in the report [3]. Financial ratio is one form of accounting information that is important in the process of corporate performance appraisal, so that the financial ratios can reveal the financial condition of a company and the performance that has been achieved by the company for a certain period. The position of financial ratios of PT. PN from 2006 to 2010 can be seen in the table below:

TABLE II: Ratio Finance PT. PN Year 2006 to 2010

	Description	2006 Audited	2007 Audited	2008 Audited	2009 Unaudited	2010 Unaudited
A	**Liquidity Ratio**					
	Current Ratio	1,01	1,27	0,74	0,22	0,37
	Quick Ratio	0,02	0,01	0,02	0,00	0,01
B	**Leverage Ratio (%)**					
	Total Debt to Equity Ratio	795%	1800%	2415%	-2806%	-2198%
	Total Debt to Asset Ratio	89%	95%	96%	104%	105%
C	**Profitability Ratio (%)**					
	Operating Profit Margin	31,1%	24,7%	24,1%	-47,3%	33,5%
	Net Profit Margin	3,6%	2,4%	2,1%	-47,0%	-12,6%
	Rate of Return on Investment	0,8%	0,3%	0,2%	-6,5%	-1,8%
	Rate of Return on Equity	7,4%	5,4%	4,9%	174,7%	37,6%

(Source: Secondary data processed, 2018)

Financial ratios that can reflect information about the company initially experienced *financial distress* can be a liquidity ratio, *leverage* ratio and profitability ratio. Liquidity Ratio of PT. PN average year 2006-2010 shows the ratio below 1 is 0.72 and *quick ratio* of 0.01. There is a tendency of percentage increase due to the increase of very large liabilities of *Debt to Equity* Ratio in the period 2006 to 2010, while the negative sign in the year 2009 and 2010 shows the equity position in minus value because the company was at a loss condition.

Return on Investment and *Return on Equity* indicate the ability of the company to provide benefits. In 2006 to 2008 *Return on Investment* and *Return on Equity* tend to be low. In 2009 and 2010 both ratios were negative. Negative values show in 2009 and 2010 as the company suffered losses.

PT. PN has shown symptoms of experiencing *financial distress* since the end of 2008, this is marked by the company began to have difficulties to meet various short-term obligations. Difficulty of repayment of obligations that matured every period becomes accumulated. This condition has implications on the condition of PT. PN experiencing *financial distress*.

Financial distress experienced by the company led to almost all of the obligations cannot be fulfilled by PT. PN, primarily liability to suppliers, contractors, taxes and liabilities to creditors of both banks and non-banks. This situation eventually led to a bankruptcy suit against PT. PN submitted to the Commercial Court of Surabaya by several creditors in June 2010. Responding to this request, the Commercial Court of Surabaya granted by first stipulating PT. PN in PKPU, which then changed to Permanent PKPU in October 2010.

PKPU (Suspension of Obligation of Debt Payment) is regulated in article 222 up to article 294 of Law no. 37 Year 2004 Concerning Bankruptcy and Suspension of Payment Obligations [4]. The PKPU is closely related to the inability to pay (insolvency) of the debtor of its debts to the creditors. In this PKPU period, the creditor and debtor are given the opportunity to discuss their debt repayment by giving the plan of payment of all or part of its debt, including if necessary to restructure its debt. So the postponement of debt payment obligations (PKPU) is basically one of legal action moratorium (peace plan). If peace is not achieved, then the alternative is the company then declared in bankruptcy.

Companies experiencing *financial distress* as experienced by PT. PN must immediately find the right strategy to be out of financial difficulties. Improper handling of these conditions increases the likelihood of bankruptcy. The company is in a crucial phase, as stated by Brigham & Dave [5] that the ability to survive during these difficult times (times of *financial distress*) often means the difference between forced liquidation and successful rehabilitation. Inability to find a way out, will take the company to bankruptcy and must be liquidated. A comprehensive strategy must be formulated, which will be able to bring PT. PN into better financial condition.

Financial distress is one of the important and interesting topics because it involves the survival of the company, where all *stakeholders* have an interest in the on-*going concern* of the company. The majority of research on the topic of *financial distress* still aims to form a model to predict or factors that affect *financial distress.* The study has not considered a way out or a strategy that can overcome *financial distress*.

This research will focus on strategy formulation process for PT. PN to be able to overcome its *financial distress*. Prior to the strategy formulation stage, financial performance measurement should be performed using Altman Z-score and using financial ratios to determine the level of *financial distress* that occurs and to determine whether the financial problem is temporary or permanent and whether the company will be liquidated or saved. If the decision is to save the company, then at the later strategies, *turnaround* should be formulated to reverse the direction of the company's exit from bankruptcy zone.

Preparation of the strategy will refer to the existing theories and reflect on the results of empirical studies that have been done related to the factors that cause companies experiencing *financial distress* able to make a *turnaround* or a reversal of the performance degradation.

Measurement of financial performance again made after the implementation of strategy to be able to give a picture of the effectiveness of strategies that have been made. Altman Z-score and financial ratios are seen to know whether it is away from *bankruptcy* zone or not.

Z-Score compiled [6] can be used as a measure of the level of *financial distress* experienced by the company. If the *Z-score* is higher than 2.90; then the company is included in a *non-bankrupt company*, if *Z-score is* less than 1.2 then the companies are likely to go bankrupt and if *Z-score* between 1.2 - 2.90 then the company is defined to be in the *zone of ignorance* or *gray area*. Thus it is important to see the Z-Score changes before and after the strategy is implemented to see if the strategy implementation is able to increase the Z-score which means keeping the company away from the *bankruptcy* zone.

Some financial ratios included in the *Liquidity Ratio*, *Leverage Ratio* and *profitability ratio are* widely used in research to predict the existence of *financial distress* in a company. It becomes relevant to see the changes in these financial ratios before and after the strategy is implemented.

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II. RESEARCH METHOD

This research used descriptive research method with quantitative approach by using PT. PN as a case study. Descriptive research is a study that attempts to describe a phenomenon and events in which the researcher tried to photograph events that became the center of attention to then be described as it is. Research is carried out by taking the steps of collecting, classifying and analyzing or processing data, making conclusions and reports with the main purpose to make an objective description of a situation in a description.

Quantitative approach is the approach that is done by recording and analyzing the data of the research results exactly by using the calculation of the numbers. Therefore, descriptive research with a quantitative approach, as proposed by Nana Sudjana [7] is used when research aims to describe or explain events or an event that occurs in the form of meaningful numbers.

This research is a research to describe a phenomenon that happened in PT. PN which was experiencing financial difficulties and trying to make the formulation of a *turnaround* strategy that is expected to bring the company out of the existing problems. Because it involves financial problems, then the formulation of the strategy will be much done with the approach of numbers, especially with regard to financial statements and financial ratios of the company. Similarly to measure, the implications of the strategy to be implemented will be seen from the quantitative approach.

A case study is a study that places something or an object under investigation as a 'case'. Case study emphasizes the depth of analysis of a specific case. This method is very appropriate to understand certain phenomena at a certain time and place. In this study, *financial distress* that occurred in PT. PN will be appointed as a case study.

This research was conducted at PT. PN located in Denpasar with observation period from 2006 until 2012. During that period, PT. PN experience different conditions.

This research is focused on PT. PN. In real conditions in the field, the group that oversees PT.PN is the NK group, which also manages some other businesses and business unit which little influence on the financial condition in PT. PN. This research is limited to PT. PN and its subsidiaries. *Financial Distress* that occurred in PT.PN in addition to involving financial dimensions, is also very much related to the dimension of legality. This research will focus on its financial side.

Quantitative data, is a type of data that can be expressed in the form of numbers and has a count unit. Quantitative data collected in this study include the financial statements, asset valuation results, stock valuation results, financial projections and others. Qualitative data, is a type of data that is not expressed in numerical form and does not have a count unit. The qualitative data collected in this study includes an overview of the company, various events and important events in the company related to financial condition, management decisions, corporate communications with related parties, and others.

Primary data is data whose source data is obtained directly from original source (not through intermediate media). Primary data can be subject's (person) opinion individually or in groups, observation of an object (physical), event or activity, and test results. Most of the data used in this study is the primary data covering opinions and thoughts that develop, the results of discussion of problems, decisions, and the real events that occurred in PT. PN. Secondary data is a source of research data obtained by researchers indirectly through intermediary media (obtained and recorded by other parties). Secondary data are generally in the form of evidence, records or historical reports that have been compiled in published and unpublished documentary (documentary) files. The secondary data used in this research are financial statements, both audited by independent and unaudited accountants. The purpose of using company data has been audited by independent accountants, in order to obtain more accurate and reliable figures.

Data collection methods in this study were obtained from the PT. PN through non-participant observation and unstructured interview. Case study data can be obtained not only from the case under study, but also from all those who know and know the case well. Data or information can be from many sources, but it needs to be limited only to the case under study. Non-participation observation is an observation which in its implementation does not involve the researcher as the participation or the group under study. It is a direct observation of the object of research without the aid of media intermediaries. Observation is used to obtain opinion data and description of various events that occurred at PT. PN, important decisions taken by company management, audited and unaudited financial statements, *company profile*, accounting system and accounting procedures and project budget (documentary data), and others. Unstructured interviews are a technique of data collection in the observation period by not using a sequence of questions that are planned to be asked to respondents. The purpose of an unstructured interview is to bring the subject to the surface so that the researcher can determine the variables that require in-depth investigation. Questions posed to those who have relevance to the research, aim to obtain an explanation for the fairness and accuracy of the company's financial statements as well as other additional information, such as: internal control system, level and authorization of each manager and board of directors, directors, pending list of company issues. This is done to obtain management policy data in overcoming financial difficulties, plans or work programs management.

Data analysis is done after the data needed in the research collected. The process of data analysis begins with reading, studying and reviewing the validity of all available data from various sources. According to [8] the process of data analysis can include: unit processing, categorization including examination of data validity, then end with the interpretation of data.

III. RESULT AND DISCUSSION

In the process of *debt to equity swap*, the conversion of non-bank creditor debt amounting to IDR 243,240,000,000 to a shareholding of 86.17% would be done, while the old owner still has remaining shares of 13.83%. The percentage of share ownership is calculated from the consultant appointed by the Commercial Court of Surabaya. Debt conversion into stocks has both positive and negative effects. Positive effects that impact on PT. PN is the occurrence of restructuring capital structure in the presence of debt reduction in a very large amount which then transferred into company capital. The loss of non-bank debt will also result in the loss of a lot of corporate expenses, not just the burden of repayment of the loan and interest that accumulate, but also the loss of monthly interest arising from these non-bank loans. Non-bank liabilities charge much larger interest than bank interest in general. While the negative effect that arises is the presence of a very large number of shareholders, namely, 215 concurrent creditors plus one previous owner. The number of shareholders is relatively a lot for the size of a closed company (non-public). The concurrent creditors are all non-bank creditors, including condotel owners who are rented condotel rentals.

The selection of *debt to equity swap* is one option that is seen as effective from a practical perspective or empirical study. In a practical perspective, from a variety of debt restructuring alternatives the company chooses *debt to equity swap* by converting the company's debt into equity is the only acceptable way either by the debtor company or by the concurrent creditor amid the inability of the company to make payments on the debts and amid the inability of the company to get new bank loans to repay debts in the concurrent lender.

The decision of *debt equity swap* from an empirical perspective was conducted by Haryono [9] who evaluated the effect of various debt restructuring alternatives to the financial structure. The results of the study and analysis of three alternative debt restructuring shows that alternative debt restructuring through *debt to equity swap* policy is the best alternative, because it provides minimal capital cost (4.46%) and maximizes firm value (10%), allowing the company to operate within optimal range of financial structure.

For separatist lenders, the agreement reached is *debt rescheduling*. A different scheme for this separatist lender is agreed upon because it is not possible for a separatist lender which in this case is a state-owned bank to convert a loan it has given into a share in a debtor company. *Debt Rescheduling is* agreed to give longer time for the company to be able to meet its debt payment obligations with a lighter payment scheme. The amount of principal debt in the creditor of separatist (bank) is IDR. 160,223,061,000, - and interest payable of IDR. 9.122.205.000, -. With this agreement of *debt rescheduling*, the creditor will facilitate the elimination of fines and a 50% deduction of interest payable on the condition that the principal debt should be decreased by selling one of PT. PN’s assets: Hotel NK. The result from the sale of these assets must be deposited to the bank to reduce the principal.

PT. PN conducts an operating *turnaround* strategy by simplifying business units. This simplification is done on the premise that the situation of PT. PN is no longer possible to operate normally with the amount of debt that has been classified as very high. PT. PN decided to focus only on managing AD Hotel, which is the largest business unit, owned by PT. PN. As for other assets other than AD Hotels will be downsized by divestment and asset pooling to the parent company.

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Steps to deactivate productive assets in the form of pruning the product line is done by selling the shares of PT. NPB and the selling of Hotel NK. PT. PN sold 47.7% shares or 2.002 shares of PT. NPB with nominal amount of 10 billion. Besides PT. NPB, the product line sold is Hotel NK. Hotel NK is sold for 55.7 billion rupiah. The consequences of the sale of the asset decrease the company's sales in aggregate but it gets incentives in the form of cash that can maintain the continuity of PT. PN. The sale decision of the asset is based on an agreement with the bank and several interested parties. After making the sale, PT. PN only has one business unit that is Hotel AD.

Assets that will be downsized by being combined with the parent company (PT PN) are PT. NPP and PT. NPW. PT. NPP is a construction company. PT. The NPP is only active during the construction of the AD Hotel. The company has fixed assets in the form of a mall building that is unsuccessfully located on the ground floor and basement of AD Hotel. The circumstances do not allow to sell this mall building separately with the Hotel AD because the buildings are integrated into one location the same. The company has a debt of IDR. 199.756.845.129. The downsizing process will be done to PT. NPP is by combining it to PT. PN.

PT. NPW is an asset that is considered unproductive and has no selling value. PT. NPW is a company with a hotel school product line that all of its students have finished their studies and are not recruiting new students anymore. PT. NPW is not operating and leaving only office tools and learning tools for hospitality. These tools have no significant selling value compared to the value of the debt of IDR. 11,640,320,445. PT. This NPW will also be merged into PT. PN.

Downsizing steps of human resources were done by doing Termination of Employment (PHK) to some employees. According to the Law of the Republic of Indonesia No.13 of 2003 on Manpower, Article 1, paragraph 25, termination of employment (PHK) is termination of employment because of a certain matter which resulted in the ending of rights and obligations between worker or workers and employers. Layoffs decision made by PT. PN is more due to *retrenchment*, which is associated with economic problems, in this case is a financial difficulty that makes the company unable to provide wages to its employees. Downsizing of human resources takes place in the management level of the board of directors. The board of directors is staffs who work directly under the directors of the company to assist in handling business units and subsidiaries in the business group. Downsizing of the board of directors is done for cost savings. Downsizing in the operational staff is not much done with the rationale that during the process of *turnaround* service activities in the field of operations can still run well.

Previous research conducted and survey results by Alijoyo [10] states that the change of company management or directors has no significant effect to the success of *turnaround* process. However, in the case of PT. PN, the change of board of directors has become a consequence of *debt to equity swap* that causes dominant ownership of the shares to switch to non-bank lenders who want a change of board of directors.

AD Hotel began to operate under the condition of many hotel facilities that have not been completed or have not been purchased. This limitation causes suboptimal *revenue* of AD Hotel. It is necessary to make efforts as Hotel AD as the only business unit that is still owned by PT. PN to have the maximum possible *revenue* in accordance with its potential.

Debt to equity swap is performed by converting non-bank creditor debt of IDR. 243,240,000,000 into company capital. *Debt to equity swap was* realized in February 2012 by making a change of deed of company. Prior to the *debt to equity swap*, the total issued and paid share capital was IDR. 250,000,000. With the new deed, an increase of issued and paid share capital becomes IDR. 243,490,000,000. Below are reports of changes in equity of PT. PN for 2011 and 2012:

TABLE III: Statement of Changes in Equity of PT. PN Year 2011 and 2012

	Capital stock	Retain Earning	Amount of Capital
Balance at December 31, 2010	250.000.000	-40.015.608.675	-39.765.608.675
Profit Balance Correction	-	1.071.550.467	1.071.550.467
Additional Paid-in Capital	-	-	-
Net Profit (Loss) at 2011	-	-18.373.632.392	-18.373.632.392
Balance at 31 December 2011	**250.000.000**	**-57.317.690.600**	**-57.067.690.600**
Profit Balance Correction	-	5.268.339.753	5.268.339.753
Additional Paid-in Capital	243.240.000.000	-	243.240.000.000
Net Profit (Loss) at 2012	-	-19.922.021.765	-19.922.021.765
Balance at 31 December 2012	**243.490.000.000**	**-71.971.372.612**	**171.518.627.388**

(Source: Secondary data processed, 2017)

At the end of 2011 the value of the company's equity is IDR. -57.067.690.600. The minus value is caused by the amount of debt that exceeds the total value of the asset and the accumulation of losses experienced by the company. The realization of the *debt to equity swap* makes the value of the company's equity minus a positive value. There is a large additional capital of IDR. 243,240,000,000, making the equity value to IDR. 171,518,627,388 at the end of 2012. Significant changes that make the company's capital much healthier. Positive value with a big enough value of IDR. 171.518.627.388. The conversion of debt to capital will also affect further the financial ratios to be discussed in sub 5.5.6.

PT. PN succeeded in realizing the sale of 2.002 shares or as much as 47.7% ownership of shares in PT. NPB at a price corresponding to the latest appraisal value of 10.010.000.000, - (ten billion ten million rupiah). Funds from the sale of these shares will add to the existence of cash and cash equivalents that will affect the liquidity of the company as indicated by the improvement of the liquidity ratio that will be discussed in sub 5.5.6. On the other hand, until the end of 2012 PT. PN has not succeeded in selling NK Hotel. Agreement in the Commercial Court requires that NK Hotel shall be sold in accordance with appraisal value performed by KJPP appointed in the PKPU period which is worth IDR. 55.644.000.000, - (Fifty-five billion Six Sixty-six Million Rupiah). Sales must be done through auction mechanism that has been implemented 2 times during the year 2012, but has not managed to get a bidder and winner. Merger PT. NPP and PT.NPW to PT. PN is not legally formalized in 2012 due to various technical constraints such as the legality problem of the merging process of this company that still cannot determine the way out.

Debt rescheduling for bank creditors until the end of 2012 cannot be done because some conditions submitted by the bank cannot be fulfilled by the company, such as the sale of Hotel NK. The bank requires the company to sell Hotel NK, which then value IDR. 42,000,000,000 of which should be used to lower the principal and pay some of the interest in arrears. Another requirement that also cannot be fulfilled by the company is the completion of permits that still cannot be completed.

Efforts to increase AD Hotel revenues are made by improving all non-ready rooms, adding 10 new *meeting rooms*. The more number of rooms that can be sold and the presence of *meeting rooms* in large quantities, it is expected that the revenue of the hotel will be increased significantly. Fulfilling the adequacy of AD Hotel's working capital is also done so that hotel management can run the hotel operations well.

TABLE IV: Recapitulation of Funds for the Improvement and Procurement of AD Hotel Facilities

ACTIVITY	YEAR	
	2011	2012
Facility Procurement Project	2.125.611.486	2.809.474.093
Asset Purchase	502.753.140	2.204.204.835
Total	**2.628.364.626**	**5.013.678.928**
Grand Total	**7.642.043.554**	

(Source: Secondary data processed, 2017)

TABLE V: Revenue Hotel AD Year 2010 to 2012

	2010	2011	2012
Total Revenue	28.458.464.201	33.251.394.940	40.248.881.269
Gross Operating Profit (GOP)	12.221.211.920	14.460.715.482	17.792.096.620
Percentage GOP	43%	43%	44%
Net Profit	11.170.402.807	13.274.429.160	16.796.860.055

(Source: Secondary data processed, 2017)

In 2011, AD Hotel revenue of IDR. 13.274.429.160 increased to IDR. 2,104,026,353 or an increase of 18.8% of revenue in 2010 amounting to IDR. 11.170.402.807. While in 2012, AD Hotel revenue of IDR. 16.796.860.055 increased to IDR. 3,522,430,895 or an increase of 26.5% of revenues in 2011.

Further analysis of Hotel AD revenue data shows a shift from *leisure hotels* that rely on room sales, to *MICE hotels* that rely on the sale of *Food & Beverage* along with the use of available *meeting* rooms. This cannot be separated from the addition of 10 new *meeting rooms* which is done to strengthen the position of Hotel AD as the biggest *MICE Hotel* in Denpasar. Year 2011 sale of room rental is IDR. 23.332.883.413. Revenue from this room rental is greater than income

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from *Food & Beverage* of IDR. 20.351.532.227. In 2012, the opposite happened, income from *Food & Beverage* of IDR. 25,438,431,231 was more than the rental income of room IDR. 24,510,646,911.

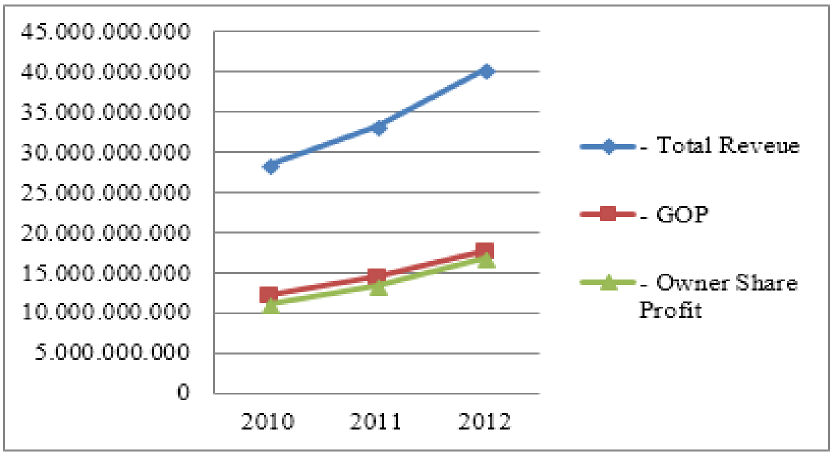

Fig 1: Revenue Hotel AD Year 2010 to 2012

(Source: Secondary data processed, 2017)

To know the results of the implementation of *turnaround* strategy more thoroughly it is necessary to check the financial statements, financial ratios and Z-Score post-implementation of the strategy. The *turnaround* strategy process PT. PN is a long process that takes years. However, in accordance with the time limit of research until 2012, the financial statements of 2012 will be used to view the financial condition post-implementation strategy. The *turnaround* effort began in the middle of 2011 when PKPU peace deal brokered.

TABLE VI: Financial Information PT. PN Year 2009 to 2012

Description	2009 Unaudited	2010 Unaudited	2011 Unaudited	2012 Unaudited
Balance Component				
Cash & Cash Equivalent	174.631	1.211.077	7.345.846.469	18.260.694.484
Total Asset	228.421.468.086	283.949.091.745	247.928.965.824	340.996.233.432
Total Current Liabilities	35.647.322.191	25.602.850.447	287.996.656.424	152.477.606.044
Total Account Payable	236.862.913.854	297.481.864.003	304.996.656.424	169.477.606.044
Total Equity	-8.441.445.768	-13.532.772.258	-57.067.690.600	171.518.627.388
Income Component				
Revenue	31.355.847.397	40.324.788.869	44.831.713.570	51.027.346.315
Cost of Goods Sold	4.214.172.410	6.488.554.691	15.656.440.246	17.833.111.841
Total Business Overhead	41.957.790.117	20.331.754.224	31.518.286.595	34.555.828.670
Profit (Loss)	-14.816.115.131	13.504.479.952	-2.343.013.271	-1.361.594.196
Other Revenue (Overhead)	66.325.453	10.739.431.884	16.030.619.120	18.560.427.569
Condotel Lease Cost		7.856.374.557		
Net Profit (Loss)	-14.749.789.678	-5.091.326.490	-18.373.632.391	-19.922.021.765

Source: Secondary data processed, 2017

In 2012, several things in the financial statements that show a positive change from previous years is the value of equity to be positive with a large value of IDR. 171,518,627,388 and the availability of cash and cash equivalents in a quite a lot number of IDR. 18.260.694.484. The existence of cash and cash equivalents in sufficient quantities is very important for companies that are trying to get out of *financial distress*. The existence of cash and cash equivalents will make the company able to run its operations properly. Net income (loss) of the company in 2012 still shows a big loss at the amount of - IDR. 19.922.021.765. Excluding operating loss of IDR. 1,361,594,196, interest expense and arrears fine of IDR. 17.675.092.007 is the most dominant load contributor.

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TABLE VII: Financial Ratios of PT. PN Year 2009 to 2012

	Description	2009 Unaudited	2010 Unaudited	2011 Unaudited	2012 Unaudited
A	**Liquidity Ratio**				
	Current Ratio	0,22	0,37	0,10	0,86
	Quick Ratio	0,00	0,01	0,11	0,99
B	**Leverage Ratio (%)**				
	Total Debt to Equity Ratio	-2806%	-2198%	-534,4%	98,81%
	Total Debt to Asset Ratio	104%	105%	123,0%	49,70%
C	**Profitability Ratio (%)**				
	Operating Profit Margin	-47,3%	33,5%	-5,2%	-2,7%
	Net Profit Margin	-47,0%	-12,6%	-41,0%	-39,0%
	Rate of Return on Investment	-6,5%	-1,8%	-7,4%	-5,8%
	Rate of Return on Equity	174,7%	37,6%	32,2%	-11,6%

(Source: Secondary data processed, 2017)

In 2012, Liquidity Ratio and *Leverage* Ratio showed significant improvement from previous years, while in Profitability Ratio there has been no significant change. The liquidity ratio is an indicator of the company's ability to pay all short-term financial liabilities at maturity by using current assets available. With this increase in liquidity ratio in 2012 means the company has a better ability to meet the payment of its short-term obligations than in previous years. Leverage Ratio or often called *Solvency Ratio* is a financial ratio that measures a company's ability to meet its long-term liabilities such as interest payments on debt, final principal payments on debt and other fixed obligations. With this increase in *leverage* ratio in 2012, it means that the company has a better ability to meet the payment of its long-term liabilities compared to previous years. Profitability ratio is a ratio that aims to determine the ability of companies in generating profit over a certain period. In the case of PT.PN, although AD Hotel revenues increased significantly, but there was a large operating expense, namely, the interest expense and depreciation expense causing PT. PN still suffered losses in 2012. The value of negative profitability ratio shows PT. PN is in a loss condition.

Altman Z-Score is used to determine the level of financial distress of a company. Table 8 shows the value of Z-Score PT. PN from 2009 to 2012. From the data, it can be seen that in 2012, Z-Score PT. PN has increased from 2011, from -0.87 to 0.34. This increased of Z-score score indicates level of *financial distress* a declining. However, the value of Z-Score 0.34 is still below the threshold value of 1.2 which means that PT. PN is still in the zone that is likely to bankrupt.

TABLE VIII: Table Z-Score Year 2009 to 2012

Description	2009 Unaudited	2010 Unaudited	2011 Unaudited	2012 Unaudited
Current Asset	7.749.203	9.435.586	30.404.057	131.598.476
Current Liabilities	35.647.322	25.602.860	287.996.656	152.477.606
Working Capital	-27.898.119	-16.167.274	-257.592.599	-20.879.130
Total Asset	228.421.468	283.949.092	247.928.965	340.996.233
Retained Earning	-14.882.440	-5.091.326	-57.317.690	-71.971.372
EBIT	-14.816.115	13.504.480	-2.343.013	-1.361.593
Book value of Equity	-8.441.445	-13.532.772	-57.067.690	171.518.627
Book Value of Debt	236.862.913	297.481.864	304.996.656	169.477.606
Sales	31.355.847	40.324.789	44.831.713	51.027.346
Z-Score	**-0,22**	**0,21**	**-0,87**	**0,34**

Source: Secondary data processed, 2017

IV. CONCLUSION

Based on the results of the research, it can be concluded that Debt to equity swap cannot be done to the debts of the creditors of the bank, the choice is to do debt rescheduling which aims to give time for the company to rearrange the ability to pay against its debts while providing other possible waivers. Operating Turnaround Strategy a reduction of product line / reduction of business units. Another step of operating turnaround strategy is downsizing business unit in PT. NPP and PT. NPW combined with PT. The last step of the turnaround strategy is the termination of employment to a number of employees and management who are considered less effective during the turnaround process. Implementation of formulation turnaround strategy of PT. PN in 2012 shows improvement in liquidity ratio and leverage ratio. Profitability ratios have not shown any significant improvement. Altman Z-Score shows improvement, but its value is still in the possibility of bankrupt zone.

As a follow up to the results of this study the following are the steps that are recommended to PT. PN: restructuring debt to equity swap is one way to overcome the problems of financial distress but the implication is the number of shareholders to be plenty. The large number of shareholders without a majority shareholder resulted in the difficulty of decision making process that makes it harder to reach agreement because each shareholder has their own interests. Company management must also pay great attention to the obligations arising from the peace agreement in PKPU. Failure or inability to fulfill obligations under this peace scheme will put the company at risk for re-bankruptcy. This research is expected to be a reference for similar cases in order to pay attention to the restructuring decision taken.

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