

The Effect of Ownership Structure on Successful Private Debt Restructuring: Evidence from Indonesia

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Abstract - A debt restructuring scheme has been an ultimate choice for financially distressed firms to meet their obligation covenants. Under the corporate governance practice, investors will exert effort to obtain an optimal method of debt renegotiation to alleviate firms from distress and improve the shareholders' value. An analysis of factors affecting successful firm private debt restructuring is carried out by adopting several independent variables: the proportion of institutional ownership and managerial ownership within the sample of financially distressed firms that had undertaken debt restructuring between FY 2012 and FY 2018. By running a binary probit regression model, we find that a distressed firm with a higher percentage of institutional ownership has a greater probability of succeeding and surviving through private debt renegotiation. A duration analysis of the length of time for debt restructuring completion is entirely consistent with the documented result in probit regression analysis. A higher proportion of institutional ownership shortens the duration for a firm to successfully restructure its debt. On the other hand, we discover an insignificant result for managerial ownership. We conclude that for financially distressed firms, the role of institutional investors is crucially important for the success of private debt restructuring.

Keywords - Institutional Ownership, Managerial Ownership, Private Debt Restructuring, Financial Distress, Indonesia

I. INTRODUCTION

Debt restructuring scheme has been an ultimate alternative for financially struggling firms to pay their debt in a crisis condition so that the troubled firms can avoid bankruptcy liquidation process and still can continue their operating activities. Debt restructuring is now defined as an event in which the debtor is in financial difficulties, and the creditor grants a concession to modify the terms of a debt obligation by following a private negotiation or court judgment [3].

Debt restructuring mechanism has become a trend since the global economic crisis in 1998. It has also become the effort of governments to rescue some going concern firms. After 1998, the trend is rising again until now due to the global economic crisis. Real-world phenomena have

denoted as 02 September 2020, during 2020, the amount of debt restructured in Indonesia has reached Rp 857 trillion, 41.34% was proposed by small-medium enterprises (SMEs) and the remainder was proposed by non-SMEs, which consists of public listed companies and individuals (Indonesia Financial Authority, 2020)¹.

Indubitably, the scheme affects both positive and negative consequences on debtor and creditor firms. Previous studies have discovered that there is a *moral hazard* indication in the debt restructuring mechanisms in which debtors may only use this mechanism as a tool to avoid or postpone their repayment on obligation without any real performance improvement [19]. Nevertheless, if the firm acts on behalf of shareholders, any debt alleviation supposedly can help firms reinvigorating corporate performance and prevent bankruptcy liquidation. On the other hand, reviewed from the creditors' side, the fate of banking firms and other lenders' institutions may run into higher risk, marked by lowering profitability and the higher ratio level of non-performing loans [35]. This ratio is related to the quality of bank assets and reflects the risk that the underlying cash flows from loans and securities held by financial institutions may not be paid in full [34]. However, for the lender institutions, it is better rather than if loans are not paid at all [9]. In the medium term, a high percentage of loan restructured leads to a structural vulnerability and, in the long-term, potentially will lead to systemic risk [7]. According to Enny Sri Hartati (INDEF Economist) on CNBC News (2020)², if more than 50% of bank loans are restructured, it will potentially trigger a financial crisis among the banking industry in Indonesia despite the debt being secured. Therefore, the decision for firms to undertake debt restructuring and the determination of the debt restructuring method given by creditors would be a great deal for both parties. Moreover, the debt restructuring mechanism involves agency relationships, considering that the choice of debt restructuring is the agents' decision which is taken for principals' interest so that the principals will make an estimate whether that decision and the new terms received will benefit them or not.

¹ Walau jumlah debitur sedikit, faktanya restrukturisasi didominasi kredit korporasi. (2020, June 23). Retrieved from <https://keuangan.kontan.co.id/news/walau-jumlah-debitur-sedikit-faktanya-restrukturisasi-didominasi-kredit-korporasi>

² Hastuti, R. (2020, May 12). Gak boleh Asal-Asalan! Restrukturisasi KREDIT HARUS HATI-HATI. Retrieved June 27, 2021, from <https://www.cnbcindonesia.com/news/20200512145520-4-157917/gak-boleh-asal-asalan-restrukturisasi-kredit-harus-hati-hati>

Ownership structure is the critical factor of a firm to survive from financial distress [23] since investors act as the owner of a company who bear a high risk from equity they provided. The likelihood to obtain higher benefit from debt restructuring increases along with the level of shareholders' bargaining power [21]. Firms with a strong relationship with banks tend to successfully restructure their debt [17]. Without strategic governance practices like these, financially distressed firms may not obtain the optimal method of restructuring. In severe conditions, firms may run to file for a costly juridical reorganization process or directly run into bankruptcy liquidation proceedings. In 2018, PT. Kertas Leces (Persero) went through a bankruptcy proceeding after attempting to restructure its debt. Meanwhile, in the same year, PT. Bakrie and Brothers, Tbk. notched a positive performance after debt restructuring has been carried out [30]. The gap between these issues in Indonesia is becoming interesting to be further investigated. Moreover, there might be agency problems that can affect the optimal terms, benefits received, and commitment in earning management from debt restructuring attempts that directly influence the performance growth after restructuring. Thus, this research intends to define whether different ownership structures in a study of Indonesian firms directly influence successful debt restructuring since it is also argued that the role of shareholders' are essential during distress periods. The definition of successful debt restructuring in this study is when a firm acquires the optimal methods of debt restructuring. So as to measure the optimal methods, this study adopts three proxies: interest coverage-based credit rating, current ratio, and EBITDA margin. These proxies are aligned with the several methods of restructuring enacted in Indonesia.

Out-of-Court Debt Restructuring

Debt restructuring or debt renegotiation is the occurrence of debt contract alternation between the borrower and lenders which ensue from the inability of contracting parties to meet the initial terms of the debt contract due to the unanticipated or unprecedented business risk [15]. To determine the initiative of opting debt renegotiation alternative, most practitioners agree that direct costs of juridical restructuring and bankruptcy liquidation are significantly higher rather than out-of-court restructuring's (private debt restructuring) cost since the legal remedies involve a complexity which results in inflated legal costs [37]. A study on 169 distressed companies in the US exhibit that during distress periods, firms are more likely to restructure their debt privately when a firm's assets are dominated by the intangible ones, relatively owe more debts to banks, have few lenders, and have high going-concern value [14]. As same as in the

United States, where a distressed firm may either run into Chapter 11 proceedings or direct private negotiation with related debtholders, implementation of debt restructuring in Indonesia is also divided into two, the out-of-court debt restructuring (private debt renegotiation) and Penundaan Kewajiban Pembayaran Utang (PKPU) — a debt restructuring procedure under Indonesia supreme court. According to Baker McKenzie³, the supreme court decree allows creditors to file a PKPU petition under debtors' names. Litigation under the supreme court decree takes a long journey with a maximum of 270 days. If, after a certain number of days, debtors fail in PKPU proceedings, a commercial court is required to issue a bankruptcy verdict against debtors. Nevertheless, this study will not cover the sample of firms that carried out debt restructuring under PKPU since the success measurement of that in-court-debt-restructuring fits with the outcome: reconciliation or bankruptcy liquidation [17].

According to Indonesia Financial Authority's (OJK) regulations no. 11/POJK 03/2015, debt restructuring methods enacted in Indonesia cover: (i) lower interest rates; (ii) extension of the period; (iii) reduction of principal arrears; (iv) reduction of interest arrears; (v) additional credit/financing facilities; and/or (vi) conversion of credit into temporary equity. The first, fourth, and sixth affect the value of the interest coverage ratio. The second, third, and sixth can reduce liabilities value and increase the current ratio. The fifth is able to enhance EBITDA margin indirectly since additional credit facilities may increase the amount of capital expenditure in which might elevate the profitability as well. Furthermore, there are several assessments to define whether a debt is required to be restructured or not, as stated by the Bank of Indonesia in no. 14/15/PBI/2012 regulation about Commercial Bank Asset Quality Assessment such as (i) debtors trouble in paying off the principal and/or debt interest; (ii) debtors are cooperative in completing their obligations; (iii) debtors have a going-concern business; (iv) debtors are considered to be able to pay off their obligations after restructuring. Besides, lenders are also prohibited from relaxing debt payment fulfillment merely because of borrowers' low credit score and if only to avoid the incremental provision for asset losses (PPA).

Institutional Ownership

Most Indonesian companies belong to business institutions that have majority ownership or controlling ownership. It is proven by the phenomena after 1998 in which institutional ownerships have an average proportion of ownership by 60% from total ownership [40]. Institutional ownership indeed has the greater incentives with ample resources and the ability to monitor and have

³ Leow, B., Leow, B., Author Baker McKenzie Wong & Leow Baker McKenzie Wong & Leow, & Leow, A. (2017, September 21). Indonesia: The story so far – suspension of payment PROCESS (PKPU). Retrieved June 27, 2021, from

<https://restructuring.bakermckenzie.com/2017/09/21/indonesia-the-story-so-far-suspension-of-payment-process-pkpu/>

direct influence over the manager's decision [36]. In the condition of financial jeopardy, institutional investors would react accordingly as if they perceive the firm is important to them and they insist on keeping the firm from distress, especially in the context of concentrated ownership [27]. Institutional investors also tend to take major control and play a better role over the downward in earning management during distress conditions [5].

Institutional investors appear to have influence in establishing the financial policies, taking over the disciplinary role of debt from managerial investors [28]. In the normal condition, the presence of institutional owners is associated with the lower cost of debt and better credit rating, which prevailed both for bonds [4] and bank loans [31]. A study within the scope of Malaysian firms indicates that institutional ownership negatively related to the likelihood of debt restructuring occurrence, implying that institutional investors might avoid the recurrence of debt restructuring in the future [1]. Institutional owners also prefer other types of debt financing other than bonds, such as private debt and bank loans, and are less likely to issue bonds [38]. The characteristics of institutional holdings that are prone to disclose information potentially lead to strong lender relationships, including bank relationships, increasing the chance of successful debt restructuring [17].

H1: Institutional ownership has a positive relationship with a firm's successful debt restructuring.

Managerial Ownership

In regard to managerial ownership, the existence of managerial ownership induces better corporate performance [20]. A lower degree of managerial ownership may align with the interest of shareholders [13]. However, a higher degree of concentrated managerial ownership may inflict an entrenchment effect in which managers utilize their control to acquire personal benefit. Managerial ownership is positively related to the cause of financial distress, which is supported by entrenchment effect theory [25][39].

H2a: Managerial ownership has a negative relationship with a firm's successful debt restructuring

On the other hand, several studies argue conversely [8][10][41]. In the condition of financial distress, managerials' equity provides incentives for management, encouraging them to be in shareholders' interests [22]. The optimal terms and timing of restructuring are highly influenced by the role of shareholders' bargaining power and it becomes stronger when the tax rate and bankruptcy cost are higher [33]. Many literature associate shareholders' bargaining power with the percentage of managerial shareholdings [12][21][29].

Managerial shareholdings reduce the conflict between management and shareholders, effectively driving the coordination and bargaining power in the renegotiation process [22]. Besides, they also deliver the result that the

stronger shareholders' bargaining power, the higher opportunity for firms to alleviate underinvestment problem [21].

H2b: Managerial ownership has a positive relationship with a firm's successful debt restructuring.

II. METHODOLOGY

Data and Sample

The sampling method employed for this research is a purposive sampling technique. The firms' characteristics that will be examined in this study are, (1) non-financial industry public listed firms; (2) encountered financial distress between 2012 and 2018 (predicted using Altman's Z Score model); and (3) restructure their debt in the year of distress period.

This study will be using secondary data, utilizing firms' annual financial reports to predict distress and private debt restructuring occurrence (sample of firms that restructure their debt through PKPU will be neglected). In total there are 90 samples of firms whose debt restructuring event is detected by the researchers.

Variables and Measurement

This study will be using dependent, independent, and control variables to examine the ownership structure's effect on successful debt restructuring that will be explained below:

Dependent Variable

The definition of successful debt restructuring in this study is when debt restructuring firms are able to obtain optimal terms/methods of restructuring that can give a large benefit for them. This research uses three firms' performance ratios as the proxies in obtaining the optimal terms of debt renegotiation, which are: (1) interest coverage-based credit rating [6], this proxy is used to assess Indian firms performance after debt restructuring [24], (2) current ratio, this ratio is used to gauge a Indian firms' performance in post-restructuring [16], and (3) EBITDA margin, this proxy is adopted to measure Japanese firms performance in post-restructuring [19]. All proxies/indicators employed by the researchers are aligned with the impact of six debt restructuring methods applied in Indonesia.

If the firms are able to improve their performance in three years after debt restructuring, the researchers will mark a value of 1 and otherwise 0 in every measurement indicator. To be considered to entirely succeed in private debt restructuring, firms' performance must be improved in a minimum of two indicators of measurement. Hence, the output of the dependent variables will be a dummy variable: 1 for successful firms and 0 for unsuccessful firms.

Independent Variables

The independent variables are the proportion of (1) Institutional ownership (*INST*) and (2) Managerial ownership (*MAN*). All ownership structure types will be computed at the onset of the debt restructuring year.

Control Variables

The control variables are (1) Firm Age (*AGE*), the age of a firm will be specified using how long a firm has been established until the year in which firms restructure their debt, (2) Firm Size (*SIZE*), natural logarithm of total assets, (3) Leverage Ratio (*LEV*), measuring total liabilities over total assets, *LEV* will be counted at the onset of the debt restructuring year, (4) Profitability Dummy (*ROAD*), return on assets (ROA) that will be presented as a dummy, in which positive ROA before restructuring year will be valued as 1, 0 otherwise.

Research Model

A) Binary Probit Regression Analysis

This study adopts a binary probit regression model to examine the effect of ownership structure on successful debt restructuring. The equation is presented below:

$$Y^* = \beta_0 + \beta_1 OWN_{it} + \beta_n CONTROL_{it} + \varepsilon$$

Where, Y^* is a response variable that is divided into two (for successful = 1 and for unsuccessful firms = 0)

$$P(Y = 0) = \phi(\beta_0 + \beta_1 OWN_{it} + \beta_n CONTROL_{it} + \varepsilon)$$

$$P(Y = 1) = 1 - \phi(\beta_0 + \beta_1 OWN_{it} + \beta_n CONTROL_{it} + \varepsilon)$$

In which ϕ is the cumulative distribution function of the standard normal distribution:

$$\phi(x) = \int_{-\infty}^x \frac{1}{\sqrt{2\pi}} \exp\left(-\frac{x^2}{2}\right) dx$$

Before running the probit regression, the researchers have conducted several preliminary tests such as normality test, a test of independence (t-test), multicollinearity test, and heteroscedasticity test.

B) Duration Analysis (Accelerated Failure-Time Model)

This study considers the length of time for firms to complete the debt restructuring process as their remedy marked by an increase in a minimum of two indicators. Unfortunately, there are sample of failed firms whose debt restructuring duration cannot be identified (called as censoring objects). Therefore, the overall analysis involves right censoring observations that may bias previous regression estimates. So, to address this issue, this study will further employ duration model. The type of duration model that will be adopted in this study is an accelerated failure-time model under Weibull distribution same as a study regarding successful debt restructuring [17].

The equation for duration model is presented below:

$$\ln(T_t) = -\beta_0 - \beta_1 OWN_t - \beta_n CONTROL_t + \ln(\tau_t) + \varepsilon$$

A negative coefficient in β serves to decrease the expected value of $\ln(\text{time to succeed})$. Hence, the expected intercept coefficients of this model will be in opposite of the regression coefficients of probit since the dependent variable (i.e. log of the length of private debt restructuring) is an inverse measure of the successful debt restructuring: the higher restructuring performance, the shorter time for a firm to complete the process [17].

III. RESULTS

A. Figures

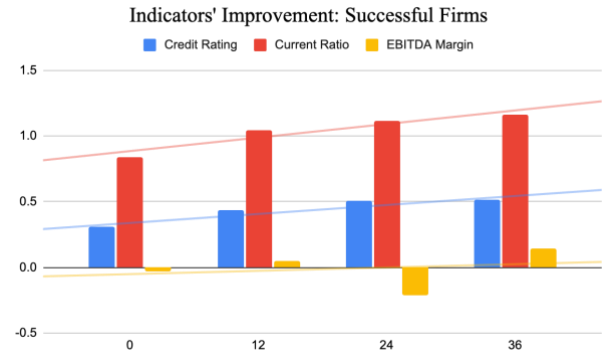


Fig. 1. Improvement in Three Indicators (Successful Firms)

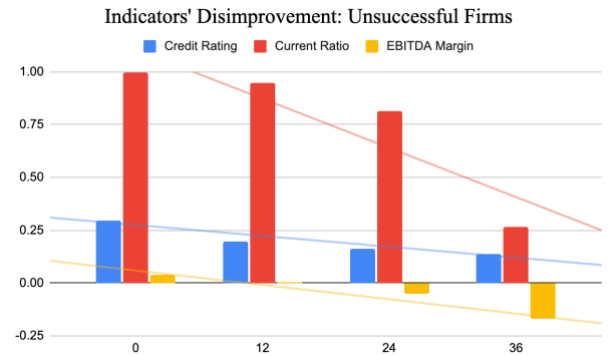


Fig. 2. Disimprovement in Three Indicators (Unsuccessful Firms)

B. Tables

TABLE 1. DESCRIPTIVE STATISTICS

Panel A: Descriptive statistics for independent variables							
Variables	Group	N	Mean	SD	Min.	Median	Max.
INST	1	60	0.695	0.258	0.000	0.772	1.000
	0	30	0.562	0.259	0.000	0.538	1.000
	Total	90	0.651	0.264	0.000	0.730	1.000

Panel A: Descriptive statistics for independent variables							
Variables	Group	N	Mean	SD	Min.	Median	Max.
MAN	1	60	0.076	0.203	0.000	0.000	1.000
	0	30	0.071	0.214	0.000	0.000	1.000
	Total	90	0.074	0.206	0.000	0.000	1.000
Panel B: Descriptive statistics for control variables							
Variables	Group	N	Mean	SD	Min.	Median	Max.
AGE	1	60	2.983	0.689	1.120	3.136	4.560
	0	30	3.266	0.546	2.020	3.309	4.754
	Total	90	3.077	0.655	1.120	3.287	4.754
SIZE	1	60	28.361	1.487	25.035	28.394	31.611
	0	30	28.811	1.656	24.058	28.897	31.674
	Total	90	28.511	1.551	24.058	28.586	31.674
LEV	1	60	1.036	1.365	0.230	0.685	10.116
	0	30	0.767	0.273	0.353	0.733	1.510
	Total	90	0.946	1.129	0.230	0.692	10.116
ROAD	1	60	0.600	0.494	0.000	1.000	1.000
	0	30	0.433	0.504	0.000	0.000	1.000
	Total	90	0.544	0.501	0.000	1.000	1.000

Group 1 = Successful Firms; Group 0 = Unsuccessful Firms

TABLE 2. CORRELATION MATRIX							
Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. Dependent	1.000						
2. INST	0.240	1.000					
3. MAN	0.010	-0.556	1.000				
4. AGE	-0.205	-0.295	-0.061	1.000			
5. SIZE	-0.138	-0.207	-0.111	0.159	1.000		
6. LEV	0.113	0.095	-0.086	-0.114	-0.221	1.000	
7. ROAD	0.158	-0.138	0.231	-0.111	0.156	-0.128	1.000

TABLE 3. UNIVARIATE ANALYSIS (INDEPENDENT T-TEST)				
	Mean (Median) of Sample			Differences (P-Value)
Variables	Successful	Unsuccessful	Differences	Independent t-test
INST (%)	0.695 (0.773)	0.562 (0.538)	0.134 (0.235)	0.01**
MAN (%)	0.076 (0.000)	0.071 (0.000)	0.004 (0.000)	0.46
AGE (Years)	24.53 (23.05)	30.26 (27.36)	-5.72 (4.30)	0.02*
SIZE (IDR Billion)	5741.15 (2143.90)	8818.65 (3597.55)	-3077.50 (2606.32)	0.09*
LEV	1.036 (0.685)	0.767 (0.733)	0.270 (-0.049)	0.14
ROAD	0.600 (1.000)	0.433 (0.000)	-0.167 (1.000)	0.07*

This table presents mean and median of successful firms, unsuccessful firms, and differences between them. ***, **, * mark statistical significant at 1%, 5%, and 10%, respectively.

TABLE 4. BINARY PROBIT REGRESSION			
Variables	(1)	(2)	(3)
Intercept	2.603 (2.973)	4.561 (2.834)	1.294 (3.344)
INST	1.181** (0.558)		1.616** (0.761)
MAN		-0.295 (0.680)	0.889 (0.923)
AGE	-0.285 (0.236)	-0.390* (0.221)	-0.226 (0.241)
SIZE	-0.091 (0.100)	-0.119 (0.235)	-0.064 (0.107)
LEV	0.303 (0.210)	0.292 (0.167)	0.344 (0.215)
ROAD	0.600** (0.298)	0.503* (0.305)	0.554* (0.305)
Sample Size	90	90	90
Pseudo R-sq	0.1150	0.0812	0.1233
GOF Test	0.5127	0.4373	0.4946

Numbers in the parentheses are standard errors. ***, **, * mark statistical significance at 1%, 5%, and 10%.

TABLE 5. DURATION MODEL (AFT)—WEIBULL DISTRIBUTION			
Variables	(1)	(2)	(3)
Intercept	1.687 (1.796)	0.017 (1.792)	2.77 (1.885)
INST	-1.074** (0.428)		-1.555*** (0.536)
MAN		0.159 (0.480)	-0.989 (0.605)
AGE	0.282** (0.236)	0.407*** (0.149)	0.220 (0.151)
SIZE	0.075 (0.058)	0.094 (0.061)	0.057 (0.059)
LEV	-0.097 (0.065)	-0.104 (0.067)	-0.105 (0.064)
ROAD	-0.554*** (0.191)	-0.458** (0.199)	-0.533*** (0.190)
Sample Size	90	90	90
LR Chi2 (P-Value)	23.19 (0.000)	16.60 (0.005)	25.64 (0.000)

Numbers in the parentheses are standard errors. ***, **, * mark statistical significance at 1%, 5%, and 10%.

IV. DISCUSSION

Figure 1 and Figure 2 above are the empirical results for average firms' performance on the year of debt restructuring, 12 months after restructuring, 24 months after restructuring, and 36 months after restructuring. Figure 1 is the financial performance improvement for successful firms, and Figure 2 is the financial performance disimprovement for unsuccessful firms. There are positive trendlines shown in Figure 1 that indicate successful firms tend to increase their performance afterward of restructuring year. Even though in the 24 months after restructuring, the average of the EBITDA margin was down to negative value, the performance in the 36th month bounced back to a relatively higher positive value of EBITDA margin. Meanwhile, the downward trendline is shown in Figure 2 indicates that unsuccessful firms' performance tends to decrease year by year after restructuring.

From Table 1, we can see that successful firms tend to have a higher percentage of institutional ownership compared to unsuccessful firms (based on its mean). The median of institutional ownership (INST) is 73.00%, exhibiting that 50% of the total sample has more than 73.00% of institutional ownership. Successful firms also have a bigger portion of managerial ownership compared to unsuccessful firms. In contrast with INST, the median of managerial ownership (MAN) denotes that 50% of the total sample have 0% of managerial ownership, likewise for the successful firms. The maximum percentage of ownership held by institutional and managerial investors is 100%.

Concerning the control variables, successful firms tend to be younger (AGE) and smaller (SIZE) compared to unsuccessful firms (applies in mean, median, max). The cumulative average of LEV is exceedingly higher than the minimum leverage ratio of the total sample. The median of LEV indicates that half of the total sample have more than 69.2% total liabilities-to-total assets. The mean is also relatively high (94.6%) compared to previous research (60.3%) by [16]. These findings are in line with an argument: firms that are likely to restructure their debt privately are firms that owe relatively more debt to banks—our sample mainly covers firms that are given debt relief by banks [13]. ROAD for successful is higher than unsuccessful firms (applies in mean and median). The total median is 1.00, which marks that 50% of the total sample have a positive ROA prior to the debt restructuring year.

The correlation between the dependent variable and the regressors is shown in Table 2. Particularly, there is no strong positive correlation between the two variables. However, INST and MAN present a strong negative correlation (-0.556), this finding implies that firms with high institutional ownership tend to have low managerial ownership [2]. The other variables show a moderately Pearson correlation ranging from -0.295 to 0.240.

The sample of 90 debt restructuring attempts is further divided into two subsamples i.e. successful firms (60 firms)

and unsuccessful firms (30 firms). Table 3 presents the result of differentiate analysis from these two subsamples based on four independent variables and four control variables.

The proportion of institutional ownership is distinct between two groups (at 5% level). Firm age is significantly lower (at 5% level) than those in unsuccessful firms. In successful firms, total asset (firm size) is significantly smaller (at 10% level). Profitability dummy shows significant difference between two groups. The other variables (MAN and LEV) are not statistically significant.

Based on the empirical result shown in Table 4: Model 1, 2, and 3 denote that the result fits with the observation since the value of the goodness-of-fit test (Hosmer-Lemeshow's) is higher than the significance level. In Model 1, the estimated coefficient for institutional ownership (INST) is positive and significant at 5% level, implying that, *ceteris paribus*, every increase in institutional ownership, increases the probability of performance recovery. This result is following the first hypothesis postulating a positive relationship between institutional ownership and successful debt restructuring.

Unfortunately, in Model 2, there is no sufficient evidence to prove the second hypothesis which is a positive relationship between managerial ownership (MAN) and successful debt restructuring since the regression result is insignificant. The insignificant result of the regression might be caused by a relatively small proportion of managerial ownership that is held by each of the sample of restructuring firms used in this study. This can be reflected on Descriptive Statistics and Independent T-Test section (its mean and median value). So that, the effect of managerial ownership could not be captured. Hence, the recommendation for future research is to enhance the sample of study by extending the scope of financial years used in the study. Furthermore, Model 3 provides the result when INST and MAN were regressed simultaneously. The result and interpretation is still consistent with the Model 1.

The empirical results in duration model (Table 5) are in line with those findings in the probit estimations. The result in Model 1 describes that the higher existence of institutional owners significantly reduces (has negative relationship) the time for firms to achieve success (at 5% level), meaning that, *ceteris paribus*, increase in the proportion of institutional ownership hastens the duration for successful private debt restructuring. In Model 2, managerial ownership still turns to be insignificant as same as in the probit regression estimates. Last, in Model 3, INST is still negatively related to the longer duration and significant at 1%.

From this finding, we can conclude that the role of institutional owners becomes more important here, especially in the context of financial distress where institutional owners act as the catalyst to hinder the firms from bankruptcy liquidation [27]. They also will avoid the

recurrence of debt restructuring proceedings as they intend to successfully recover their performance after the first restructuring process [1]. They can also optimally negotiate for debt restructuring methods that give an immense advantage for the company's growth and shareholders' value. Moreover, the nature of institutional owners that prefer private debt financing to public debt financing [38] affects the stronger lender relationships, including bank relationships which can elevate the probability of success in debt restructuring [17]. There is also tendency that the existence of institutional investors is able to apply power to lending firms as institutions. In addition, the researcher documented evidence that more than 80% of the samples restructured private debt (loans from banks and other financial institutions), and 100% of the samples have institutional ownership.

In accord with control variables, the researcher discovers that (1) younger firms have a higher likelihood to survive in debt restructuring with a relatively lower duration for completion. (2) Firms with solid performance before the debt restructuring year are liable to succeed in debt restructuring with a shorter time needed to succeed. The first and second findings align with the study conducted by Huang & Huang in 2011 [17].

V. CONCLUSION

This study investigates the effect of ownership structure on successful private debt restructuring using 90 samples of financially distressed firms that have restructured their debt between FY 2012 and FY 2018. The successful private debt restructuring in this study refers to the optimal method of debt restructuring that can be obtained during the negotiation process with the creditors. Accordingly, the researcher employs interest coverage-based credit rating, current ratio, and EBITDA margin as proxies for the optimal method of debt restructuring covenant. The improvement on a minimum of two proxies will be assumed as successful, otherwise unsuccessful. This study is a cross-sectional data analysis that observes the influence of two types of ownership structure (institutional ownership and managerial ownership) on the performance of firms in post-restructuring years.

Using the probit regression model and the duration model, this study documented some evidence for the first hypothesis out of two hypotheses. Institutional ownership is proven to positively affect successful debt restructuring and even shorten the time required to terminate the private debt restructuring process, implying that institutional investors have an essential role during the debt renegotiation process. Unfortunately, concerning managerial ownership, this study has no sufficient evidence to prove whether managerial owners positively or negatively influence successful private debt restructuring.

The authors believe this novel study contributes to advance the current literature of corporate finance study and can be worthwhile for business practitioners to implement. So for any policy makers of the firms with unstable financial performance or easily affected by the unfavourable macroeconomic condition and intend to overcome distress condition through debt restructuring process, considering to add the proportion of institutional ownership would be one of the best alternative to obtain the optimal terms of private debt restructuring.

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