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Turnaround Strategies during Performance Decline in Indonesian Manufacturing Firms

Jullimursyida Ganto
Faculty of Economics, University of Malikussaleh, Lhokseumawe, Aceh, Indonesia, julli_1876@yahoo.com

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The study examines causes of performance decline and turnaround strategies of Indonesian following the 1997/1998 financial crisis. The sample chosen was from the large manufacturing firms in Indonesia. The result of this study found that competitive changes, poor management, high cost structure, economic changes and failure of major projects were the significant factors contributing to the performance decline during the crisis of 1997/1998, while restructuring strategies was important strategies adapted to turnaround firms.

***Keyword** : performance decline, turnaround strategies, crisis, manufacturing firms.*

Introduction

To date, while an increasing amount of work has been conducted on the Asian financial crisis and how macroeconomic issues under governmental direction can help to improve the situation, there was less attention paid to key firm level issues that impact turnaround efforts. Such information is important to managers in the region struggling to reverse firm decline, as well as to investors or lenders from outside Asia that are unfamiliar with the more unique issues present in a turnaround effort in the region (Brutton et al., 2001).

By the mid-1990s, after three decades of economic growth in Indonesia, the manufacturing sector's contribution to the GDP creation has surpassed that of agriculture. One important characteristic of the Indonesian manufacturing industry was its high dependency on imported raw materials and intermediate goods (Wididanto and Choesni, 1999). There was no question about this dependency when raw materials and intermediate goods could not be obtained domestically.

Unfortunately, the 1997/1998 financial crisis which started in Thailand and spread to other countries, such as Malaysia, South Korea and other parts of Southeast Asia including had a bigger tell on Indonesia. The consequence of crisis of 1997/1998 was domestic prices of tradable goods adjusted upwards because of higher world prices (in Rupiah terms), because of the dramatic depreciation of the exchange rate.

High interest rates coupled with difficulties in the banking system led to a reduction in private sector borrowing during this period. Real wages fell in 1998 and investment slowed to a trickle. Construction, manufacturing, and banking and finance sectors were hardest hit in terms of the fall in real value added. Within the manufacturing sector, construction materials, steel production, transportation, and wood products recorded the greatest decline in real value added; between minus 23 and minus 55 percent. Indicative of the sharp decline in aggregate demand, imports had fallen by 36 % in the 10 months to October 1998 compared to the same period in 1997. Total US$ value exports showed a decline in the eight months to August 1998 (Widianto & Choesni, 1999). During that period, most of the companies were affected by the financial crisis such that some went into distress or some even to the point of bankruptcy. However, many companies still survived after the crisis following drastic turnaround strategies.

This study is meant to determine the causes of performance decline of Indonesian manufacturing firms. It will also enlighten what strategies were used to turnaround the firms to overcome the decline and crisis.

Literature Review

External and internal of environments of business have been proposed as the factor to trigger turnaround strategies into action. Business situations can translated into many variables, such as causes of decline. In this research, causes of decline will be investigated. The decline itself refers to the decline of firm performance for a period of two years.

The cause of decline is an important determinant to the turnaround strategies (O'Neill, 1986). Similarly, Hofer (1980) stated that the selection of turnaround strategy is contingent upon the situation, and the situation can be internal and external factors that are historical and anticipated (Rasheed, forthcoming).

The earliest study about cause of business decline by Argenti (1976), found that the causes of corporate decline are poor management, lack of accounting information, firm unresponsive to change, failure of big projects, environmental change, hostile environment, normal business hazards, lack of financial control, over trading, high gearing, and competition. Bibeault (1982) found that the reasons for corporate decline are sheer bad luck, external environment beyond management's control, real balance of external and internal factors, internal problems triggered by external factors and internally generated problems within management's control. Slatter (1984) found poor management, high cost structure and lack of financial control, as the factors that contributed to the decline of firms in U.K.

Heng et al. (1995) looked at ten potential causes of corporate decline in small, medium and large-size organizations in Malaysia. They found the following causes: lack of financial control, poor management, competition, high cost structure, changes in market demand, adverse movements in commodity price, lack of marketing efforts, failure of major projects, poor acquisition, and weak financial policy. Only two factors, they i.e. lack of financial control and failure of major projects, seem to influence decline in medium size organizations. However, the study shows that none of the causal factors were influential in large sized organizations.

Slatter (1984) identified ten major generic strategies for turnaround, which UK firms commonly applied as; change of management, strong central financial control, organizational change and decentralization, product market reorientation, improved marketing, growth via acquisitions, assets reduction, cost reduction, investment, debt restructuring and other financial strategies.

O'Neill (1986) investigated the relationship of contextual factors to the effectiveness of four primary turnaround strategies; management (new head executive, new definition of business, new top management team, morale building among employees), cutback (cost cutting, financial and expense controls, replacing losing subsidiaries), growth (new product promotion methods, entering new product areas, acquisition, add markets), and restructuring (change in organizational structure, new manufacturing methods). His model correctly predicted a negative relationship between growth strategies and turnaround success where there were strong competitive pressure. Where firms were in weak market positions, success was found for cutback and restructuring strategies.

In addition, it can conclude that the factor causes of companies decline can divided into external factors such as economic changes and competitive changes. Moreover, the internal factors, such as poor management, lack of financial control, high cost structure and failure of major projects. The most important strategies during turnaround attempts are management strategies, cutback strategies, growth strategies and restructuring strategies. Thus, it will discuss specifically on the relationship between those external and internal factors with turnaround strategies.

Economic decline is rather subjective, and there are very few data available on industry or company incidence of economic decline (Bibeault, 1982). The company could be in an economic decline for years and yet, in the absence of legally enforceable debt, be able to meet its current obligations and thus not be a legal failure. Firms' choice of several strategies in crisis is contingent on a range of factors (Sudarsanam & Lai, 2001). Generally, it is accepted that the higher the level of economic changes the greater is the chance of turnaround or conversely the lower the level of economic changes, the lesser is the chance of turnaround strategy undertaken.

Competitive change can cause decline (Bibeault, 1982). A firm that fails to be competitive is likely to find itself sliding towards extinction. Slatter (1984) noted that price competition as the main cause of decline in British manufacturing industry, due to price competition from overseas competitors in motorcars, motorcycle, machine tools and textiles. Francis and Mariola (2005) suggest that external environment is the starting point for testing the factors that influence turnaround strategies. Specifically, external attribution of decline is positively associated with the extent of top management team replacement in turnaround (Barker & Barr, 2002). It seems that the higher the level of competition the greater the chances of turnaround or conversely the lower the level of competition the lesser the chance of turnaround.

Poor management is one of the main factors in the organization contributing to the organizations' decline (Hambrick, 1992). This is supported by several previous studies (Argenti, 1976; Bibeault, 1982; Maimon, 1999; Slatter, 1984). They found that the prime cause of industrial sickness was poor management. Slatter (1984) stated that the companies in poor management situation require new management, organization change and decentralization. Barker and Barr (2002) found that top management problems give the impact on the organization decline, which more likely leads to turnaround strategies than external causes of performance decline. The more ineffective is the management team the greater seems the chances of turnaround.

Lack of financial control is one of the causes of performance decline in the companies (Argenti, 1976). The appropriate turnaround strategies implemented when lack of financial control occur in the organization are new management, improved financial control and decentralization (Slatter, 1984). It is deemed that lack of financial control influences the turnaround strategies adopted. The higher the lack of financial control is the greater the chance of turnaround. Thus, when the financial control is adequate there will be less chances of turnaround.

One of the most frequently cited causes of performance decline is the failure of major projects (Maimon, 1999; McRobert, 1997; Slatter, 1984). This is because major projects require heavy investment and the failure of such investment to take off profitably can strain the cash flows and costs are underestimated or revenues over estimated. Slatter (1984) stated that the failure of major projects in an organization influenced turnaround strategies implementation such as asset reduction. Thus, we can argue that the higher the failure of major projects the greater is the chance of turnaround strategies undertaken.

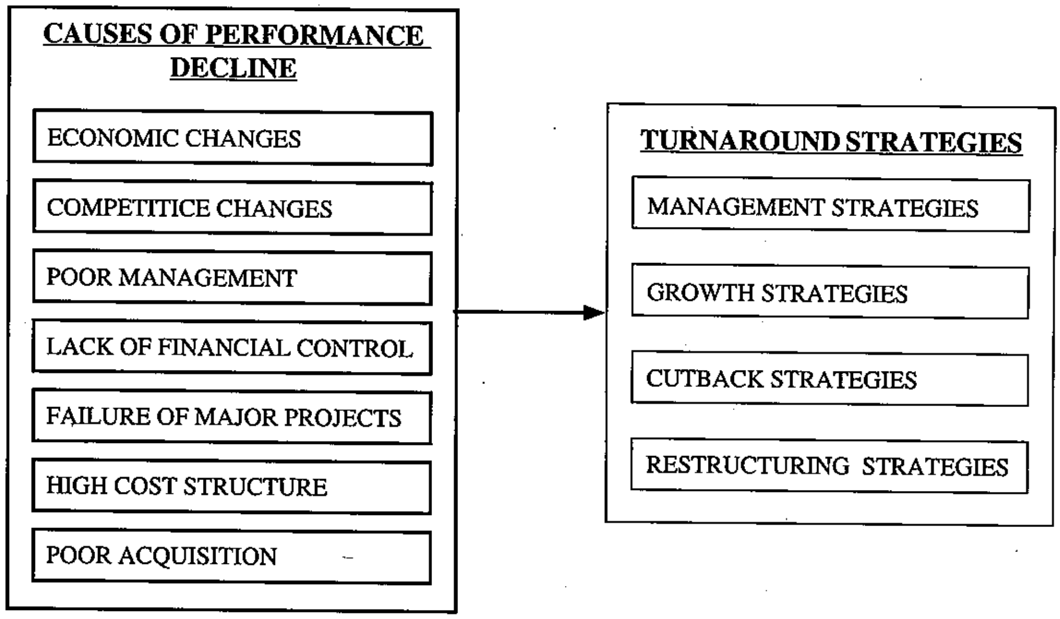
The other factors contribute to performance decline is high cost structure (Maimon, 1999). A firm that has substantially higher cost structure than that of its major competitors is likely to be at a competitive disadvantage at all times. Even those companies focusing on relatively price insensitive product market segment will have lower profit than their direct competitors, with result that they will generate less profitand less additional borrowing power (Slatter, 1984). Hence, high cost structure refers to seriousness of the problems of difficulty in terms of accessibility to raw materials, suitable labour and production know-how or simply high overheads (Slatter, 1984).

Anand and Singh (1997) found that acquisition is one of the causes of performance decline of the firms. Acquisitions are often executed primarily to implement growth strategies or diversification. Acquiring a business that does not fit into this objectives can be very costly (Slatter, 1984). Thus, the higher poor acquisition the greater is the chance of turnaround strategies undertaken.

An economic downturn normally motivates private corporations to undertake turnaround strategies to protect their assets from continued decline (Pheng & Hua, 2001). Turnaround itself is to produce a noticeable and endurable improvement in performance, to turnaround the trend of results from down to up, from not good enough to clearly better, from underachieving to acceptable, and from losing to winning (Goodman, 1982).

Unfortunately, few studies had conducted to identify the factors that contribute to the crisis that brought Indonesia to become the most seriously hit country by in Asia since the economic crisis in 1997/1998. One of the studies was by Simanjuntak (1999) who found that the large business in Indonesia is organized as conglomerates. For instance,

Figure 1. Turnaround Model



the Salim Group, the largest business group in pre crisis Indonesia, had no less than 602 companies associated with its owners and managers in 1996. The Center for Business Statistics of Indonesia (1997) reported such diversification into unrelated business was typical in all large business groups and there was a very high level of concentration in almost all industries. Chinese Indonesians assume a dominant position in the highly concentrated ownership structure that were associated with oftentimes unfair business practices, including the formation and maintenance of mutually beneficial relationships with political rulers. Hence, there is also little study on the turnaround strategies in Indonesian firms. Turnaround strategies that adopted successfully by companies in the West might not be similarly effective in Asia region. Bruton et al. (2003) found that the turnaround strategies that succeeded in the West or US could not automatically adopted in the East especially in ethnic Chinese businesses.

Figure 1 show the framework used in this research. From the literature reviews and the model the following hypothesis are proposed:

H1: Economic changes will lead to turnaround strategies.
H2: Competitive changes will lead to turnaround strategies.
H3: Poor management will lead to turnaround strategies
H4: Lack of financial control will lead to turnaround strategies.
H5: Failure of major projects will lead to turnaround strategies.
H6: High cost structure will lead to turnaround strategies.
H7: Poor acquisition will lead to turnaround strategies.

Methodology

The causes of decline and turnaround strategies were examined by surveying the CEOs of Indonesian manufacturing firms. The firms chosen were those with more than 250 employees, categorized as large companies (Urata, 2001). One thousand questionnaires sent to 1000 large companies that randomly selected from the Bureau of Statistics Indonesia, 2002. The firms chosen based on the criteria; the firms that categorized in performance decline during the Asian financial crisis of 1997/1998. They asked whether they were in the hardship of performance during that period. The firms that increase in the performance will be exclude from the study.

Measures and Procedures

The questionnaire consists of four parts. They are causes of performance decline, turnaround strategies, profile of respondent and profile of companies. The survey on causes of decline consists of 30 items. Example: (1) devaluation of major currency; (2) inflation; (3) interest rate; (4) the mergers of two or more competitor; (5) product competition; (6) price competition; (7) the announcement of a competitor's new range of products; (8) non participating board; (9) one man rule; (10) unbalanced top team; (11) lack of management depth; (12) a chief executive who believes he/she can achieve fantastic success in any business or sector; (13) untimely implementation; (14) underestimating capital requirements; (15) budgetary control; (16) cash flow forecasts. The questionnaire for turnaround strategies consists of 14 items. The example of the items are: (1) new head man (from inside the company); (2) new top management team; (3) growth via acquisition; (4) entering new product area; (5) improved marketing; (6) debt restructuring; (7) change in organization's structure.

Table 1.Summary of respondents' profile

Respondent's profile	Categories	Number of respondents	Percentage (%)
Age	20-29 years old	5	5.0
	30-39 years old	37	36.6
	40-49 years old	27	26.7
	≥50 years old	32	31.7
Sex	Male	88	87.1
	Female	13	12.9
Working period	1-5 years	23	22.8
	6-10 years	30	29.7
	11-15 years	24	23.8
	≥16 years	24	23.8

Table 2. Summary of Companies' Profile

Companies' profile	Categories	Number of respondent	Percentage (%)
		40	39.6
Companies age	5-15 years	20	19.8
	16-25 years	41	40.6
	≥26 years		
Industry classification	Manufacture of food, beverages, and tobacco	13	12.9
		36	35.6
	Manufacture of textiles, clothing, and leather	17	16.8
	Manufacture of wood and wood products, including furniture	8	7.9
	Manufacture of fabricated metal products, machinery and equipment	27	26.7
	Others		
		38	37.6
Permanent employees	250-499	25	24.8
	500-999	22	21.8
	1000-1499	16	15.8
	≥1500		

The survey items selected based on the previous studies about causes of decline by Argenti (1976), Bibeault (1982), Slatter (1984) and turnaround strategies of Slatter (1984), O'Neill (1986). Respondents were asked to rate the causes of performance decline according to five Likert scale of: (1) not serious at all, (2) not serious, (3) moderately serious, (4) serious, and (5) most serious. For turnaround strategies scale used was: (1) not used at all, (2) used to a little extent, (3) moderately used, (4) used to a large extent, and (5) used as the central strategy. The survey questionnaire was translated into Indonesian language by the Language Center (English), and then it was translated back into English to assure accuracy of translation.

From 1000 questionnaires sent, only 171

responded, with seven refusing to participate, and 63 were unusable, thus only 101 questionnaires were used for further analysis. The companies were located mainly in Java, though a few were in Sumatra and the outer islands.

Sample Profiles

The profile of respondent presented in Table 1 below. Majorities of the respondents were male (87.1 %), while female only (12.9%). Their ages according to age groups are 20-29 (5%), 30-39 years old (36.6%), 40-49 (26.7%), and more than 50 years 31.7%. Twenty-nine point seven of respondents have been working for 6-10 years, 23.8% 11 and above years, and 1-5 years is 22.8%.

Most of the companies have been in operation 26 years above (40.6%), between 5-15 years (39.6 %), (19.8 %) for between 16-25 years. Thirty five point six (35.61 %) of the companies are in textile industry, 16.8% are in wood and wood products, 12.9 % in food, beverage and tobacco industry, 7.9% of industries are in metal products, machinery and equipment, and 26.7% of them are from other sectors. Majority of the firms (37.6 %) had 250 to 490 permanent employees, 24.8% companies had 500 to 999 employees, 21.8% of them had 1000 to 1499 employees, and 135.8% had ≥1500 permanent employees.

Factor Analysis

In order to determine the causes of performance decline, the 30 items put to the factor analysis test. The result of factor analysis presented in the Table 3 below.

The factor analysis on causes of decline extracted six factors with item loading ranging from .59 to .90. seventy two point seventy six of the variance is explained with eigenvalues of greater than 1. Factor 1 is identified as poor management with factor loadings ranging from .59 to .84 (Cronbach alpha = .93). Factor 2 represents the competitive changes with item loadings ranging from .72 to .89 (Cronbach alpha = .91). Factor three with item loadings ranging from .85 to .90 (Cronbach alpha = .91) represents of poor acquisition. The fourth factor is named as economic changes with item loadings ranging from .73 to .78 (Cronbach alpha = .77). The fifth factor related to failure of major projects with item loadings ranging from .63 to .87 (Cronbach alpha = .86). The last factor addressed the high cost structure with item loadings ranging from .66 to .78 (Cronbach alpha = .57).

Table 4 below shows three factors emerged as turnaround strategies, accounting for 68.14 percent of the variance explained, with item loadings ranging from .63 to .87. Factor 1 identified three items, which appeared to be relating to management strategies. Factor loadings ranged from .84 to .87 (Cronbach alpha = .85). Factor 2 addressed the restructuring strategies. Factor loadings ranged from .63 to .80 (Cronbach alpha = .74). The items included in this factor such as new manufacturing methods and establishing new distribution methods. And the last factor represents cutback strategies with factor loading ranging from .81 to .83 (Cronbach alpha = .64).

Restatement of Hypothesis

Based on the result of factor analysis, the new model and hypothesis proposed are: Turnaround model in figure 2

Figure 2 shows the new framework from the result of factor analysis. The restatements of hypothesis are:

H1: Economic changes will lead to turnaround strategies.

H2: Competitive changes will lead to turnaround strategies.

H3: Poor management will lead to turnaround strategies.

Table 3. Factor Analysis on Causes of Performance Decline

Items	Component					
	Factor 1 Poor management	Factor 2 Competitive changes	Factor 3 Poor acquisition	Factor 4 Economic changes	Factor 5 Failure of major projects	Factor 6 High cost structure
X3.4	.84					
X3.6	.83					
X3.5	.79					
X4.1	.78					
X4.3	.76					
X3.7	.75					
X3.3	.73					
X4.2	.72					
X3.2	.59					
Reliability	**.93**					
X2.5		.89				
X2.4		.88				
X2.3		.82				
X2.2		.81				
X2.6		.81				
X2.1		.72				
Reliability		**.91**				
X7.2			.90			
X7.1			.88			
X7.3			.85			
Reliability			**.91**			
X1.4				.78		
X1.2				.76		
X1.1				.76		
X1.3				.73		
Reliability				**.77**		
X5.2					.87	
X5.3					.83	
X5.1					.63	
Reliability					**.86**	
X6.3						.78
X6.2						.66
Reliability						**.57**
Eigenvalues	**8.36**	**3.94**	**2.42**	**2.14**	**1.54**	**1.23**
Percentage variance explained	**30.97**	**14.61**	**8.96**	**7.93**	**5.72**	**4.55**

Table 4. Factor analysis on turnaround strategies

Items	Component		
	Factor 1 Management strategies	Factor 2 Restructuring strategies	Factor 3 Cutback strategies
X8.3	.87		
X8.2	.85		
X8.1	.84		
Reliability	**.85**		
X11.1		.80	
X11.2		.78	
X10.2		.76	
X11.3		.63	
Reliability		**.74**	
X9.2			.83
X9.4			.81
Reliability			**.64**
Eigenvalues	**3.08**	**1.93**	**1.12**
Percentage variance explained	**34.24**	**21.46**	**12.44**

Figure 2. Turnaround model

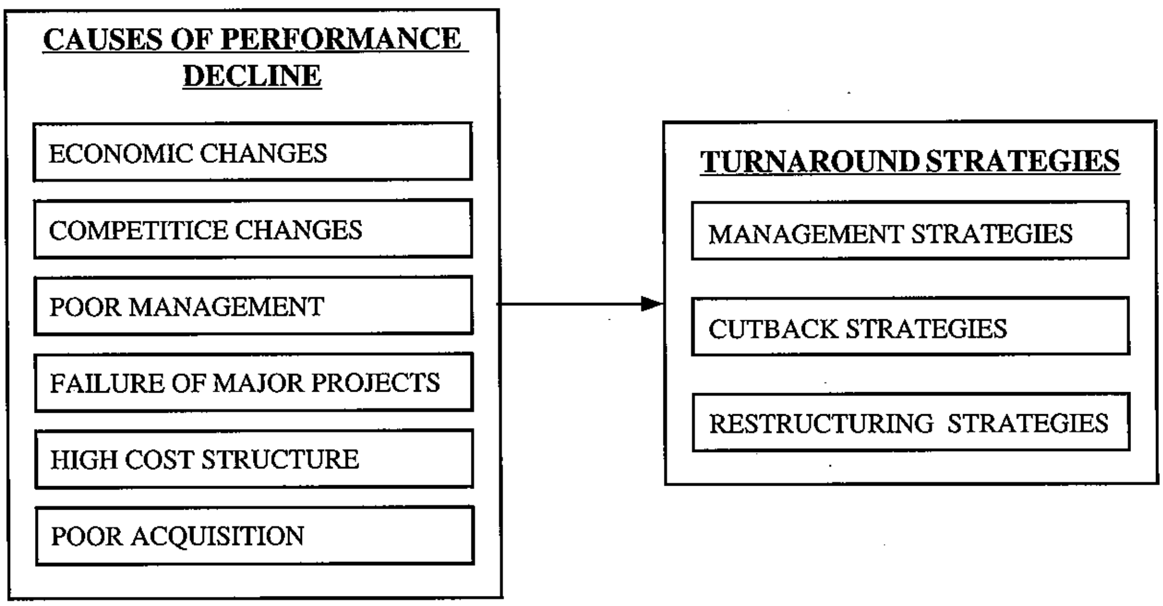


Table 5. Correlation Table

Variables	Mean	1	2	3	4	5	6	7	8	9
Causes of Performance Decline										
1. Economic changes	3.80									
2. Competitive changes	4.17	.12								
3. Poor management	4.09	.16	.24*							
4. Failure of major projects	3.71	.08	.12	.56**						
5. High cost structure	3.87	.13	.21*	.50**	.33**					
6. Poor acquisition	3.11	.02	.01	.38**	.35**	.14				
Turnaround strategies										
7. Management strategies	2.71	.17	.05	.37**	.25*	.16	.22*			
8. Cutback strategies	3.04	.19*	.07	.26**	.38**	.08	.27**	.36**		
9. Restructuring strategies	4.13	.64**	.05	.20*	.21*	.19*	.02	.18	.21*	

Note. * $p<.05$, ** $p<.01$

H4: Failure of major projects will lead to turnaround strategies.

H5: High cost structure will lead to turanround strategies.

H6: Poor acquisition will lead to turnaround strategies.

Discussion

Correlation

The results of correlation analysis provided in Table 5 below. The table shows that economic changes have positive relationships with cutback strategies (r = .19, p value <.05) and restructuring strategies (r = .64, p value <.01), but do not have any relationship with management strategies. Competitive changes do not have any positive and significant relationship with all of the turnaround strategies. Poor management have positive relationships with management strategies (r = .37, p value <.01), cutback strategies (= .26, p value <.01) and restructuring strategies (r = .20, p value <.05). The result also indicate that failure of major projects is positively and significantly associated with management strategies (r = .25, p value <.05), cutback strategies (r = .38 p value <.01) and restructuring strategies (r = .21, p value <.05). High cost structure only has a significant association with restructuring strategies (r = .19 p, value <.05), but does not has any significant relationship with management and cutback strategies. Lastly, poor acquisition is

Table 6. The Relationship between Causes of Performance Decline with Turnaround Strategies

Causes of performance decline	Turnaround strategies					
	Management strategies		Cutback strategies		Restructuring strategies	
	Std. Beta	t-value	Std. beta	t-value	Std. beta	t-value
Economic changes	.12	1.3	.16*	1.78	.62***	8.04
Competitive changes	-.04	-.45	.02	.25	-.06	-.79
Poor management	.32**	2.49	.03	.28	.00	.08
Failure of major projects	.04	.42	.32**	2.83	.16*	1.70
High cost structure	-.03	-.34	-.08	-.78	.08	.93
Poor acquisition	.08	.78	.15	1.55	-.06	-.78
	$R^2 = .16$		$R^2 = .21$		$R^2 = .67$	
	adjusted $R^2 = .11$ sig. F = .008		adjusted $R^2 = .15$ sig. F = .001		adjusted $R^2 = .45$ sig. F = .000	

* significant at .1 **significant at .05 ***significant at .01

positively and significantly correlated with management strategies (r = .22, p value <.05) and cutback strategies (r = .27, p value <.01), but not to restructuring strategies.

The mean values show that competitive changes is rated the most serious factor contributing to the decline during the crisis in 1997/1998 in Indonesian manufacturing firms followed by poor management, high cost structure, economic changes, and failure of major projects. It also shows that restructuring strategies are the most important strategies used by the companies as compared to cutback and management strategies.

Regression Analysis

The regressions above show there is no significant relationship between economic changes and management strategies. However, economic changes have positive and significant relationship with restructuring strategies. Thus, hypothesis 1 is partially supported. Competitive changes do not have any significant relationship with management, cutback and restructuring strategies, this is to say that hypothesis 2 rejected. While, poor management has significant relationship with management strategies (β = .32), it means that the seriousness of poor management will lead to the use of management strategies. Nevertheless, poor management does not have any significant relationship with cutback and restructuring strategies. Thus, hypothesis 3 is partially supported. Regarding hypothesis 4, failure of major projects will lead to turnaround strategies is partially accepted. Failure of major projects has significant and positive relationship with cutback strategies (β = .32), and restructuring strategies (β = .16), but does not have significant relationship with management strategies. This is to say that the seriousness of failure of major projects will lead to the use of cutback and restructuring strategies. High cost structure does not has any significant relationship with turnaround strategies, thus, hypothesis 5 rejected. Lastly, hypothesis 6 also rejected. It means poor acquisition also does not have any significant relationship with turnaround strategies.

Conclusion

From the results, it can be conclude that in Indonesia, competitive changes was the most serious factor that contributed to perfromance decline during the crisis of 1997/1998 in Indonesian manufacturing firms. This finding is in line with the findings of Maimon (1999), who found that competition is one of the external factors contributing to the decline of Malaysioan manufacturing companies. Poor management is the second factor that most contributes to the performance decline in Indonesia. This poor management problem occurred because of these large conglomerates organized businesses. These conglomerates are associated with unfair business practices (Simanjuntak, 2001), which occurred on a big scale in the relationship between a group owned bank with the group's other members. Firstly, banks give loans to group members with little or no collateral leading to companies having extremely high gearing. When the banks recall the loans at the onset of the crisis, the companies cannot repay. Secondly, the practice of transfer pricing and profit or cost centers have been deployed in the relationship between two or more businesses of the same group. Transfer pricing in its explicit and implicit forms are perhaps the most pertinent issues of conglomeration (Simanjuntak, 2001). Some firms treated as cost centers, while others as profit centers. The cost centers were to show losses for accounting purposes, while the profits shown elsewhere. Usually firms in the downstream industry might treat as profit centers and upstream operations as cost centers.

Economic change was also a serious factor that contributed to the decline during the economic crisis in 1997/1998. During the crisis in 1997/1998, the depreciation of Rupiah was a major problem for firms that borrowed funds dominated in US dollar. Firms have to pay seven times more. At the same time, inflation rate rose from about eight percent to more than 11%.

Failure of major projects was also a serious factor that contributed to the decline. In Indonesian manufacturing firms, many companies had problems on timely implementation of the projects coupled with underestimating of capital requirements. Since economic crisis in 1997/1998 many companies could not finish their projects on time because of the difficulties in get capital and raw materials that require other currencies (mainly US Dollars), because of the instability of the Rupiah (US $1 = Rp.15,000). The other factor that contributed to the failure was the underestimating of capital requirements. It means that before crisis, the company had budgeted by a certain sum for the project, but when the economic crisis hit the companies, the budget was no longer sufficient for the project.

This study also found that high cost structure is the third factor that contributed to performance decline in Indonesia. This result is supported by Maimon's (1999) findings who found that cost structure is the factor that contributed to the decline of firms of Malaysia. Contrary to expectation, this study found that high cost structure does not have any significant relationship with all turnaround strategies. This would mean that in difficult situations of high cost structure, management strategies, cutback strategies and restructuring strategies are not the alternative strategies to implement by the firms.

Lastly, the result of causes of performance decline show that poor acquisition is not a serious factor contributing to the performance decline in Indonesian manufacturing firms during the crisis of 1997/1998. The possible reason is acquisition is only practiced by a small number of businesses in Indonesia before the crisis. Firms would rather start new business than acquire existing firms.

The results of this study indicate the choice turnaround strategies depended on the causes of the decline. Specifically, firms are likely to choose management strategies if they perceived high levels of poor management. Firms are also likely to choose cutback and restructuring strategies if they perceived high levels of economic changes and failure of major projects. This is to say that when companies are faced with economic changes and failure of major projects , they seemed to be more active to adopt the cutback and restructuring strategies if they wish to achieve recovery. However, the firms do not choose management strategies if they perceived competitive changes while in the West this problem is associated with management strategies. This finding supports what Bruton et al., (2003) found, turnaround strategies that are important in the West not automatically used in the East.

As expected, poor management has positive association with management strategies, this result contradicts with the result of Bruton et al.(2003) study. He found in East Asia the removal of the firm's leaders is rarely done, particularly by outsiders such as the board or even by creditors. In Indonesia, when poor management seen as a factor contributing to the decline, new leader would replace the current leader during the crisis in 1997/1998, in order to capture the attention of the media, the companies prefer to change their family members in the companies with somebody else from outside their family (Tabulujan, 2002).

The result of this study showed that competitive changes and high cost structure, do not have any relationship with management, cutback and restructuring strategies. This is to say, in a situation that firms are faced with competitive and high cost structure, the management, cutback and restructuring strategies will not be the alternative. This could be one of the reasons why until 2001, the turnaround in Indonesia was slow in its progress and has little impact to the performance.

There are several limitations to this study. Firstly, the sample chosen is only the large companies. This study may not generalized to small and medium enterprises. Secondly, this paper does not consider the success of implementing turnaround strategies as represented by firm performance. That will form the subject of another paper. Finally, the study focused only on economic crisis situation in 1997/1998, the result may be different if this model is applied to normal economic conditions. In conclusion, this study suggests there is merit to study the causes of performance decline and their concomitant turnaround strategies.

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About The Authors

Jullimursyida Ganto (julli_1876@yahoo.com) is a lecturer of Faculty of Economics, University of Malikussaleh, Lhokseumawe – Aceh. She earned her Ph. D in Strategic Management from Universiti Sains Malaysia, 2006. She was the recipient of Tun Ali Foundation grant for the position of Research Assistance in Universiti Sains Malaysia. Her research interest is in the area of Strategic Management and Human Resource Management. She is currently Deputy Dean in Academic, Facullty of Economics, University of Malikussaleh, Lhokseumawe – Aceh, Indonesia.