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ACCOUNT RECEIVABLE MANAGEMENT IN PT WIJAYA KARYA (PERSERO) TBK.

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Abstract. PT Wijaya Karya (Persero) Tbk. is a state-owned company in the construction sector. WIKA business pillars consist of industry, infrastructure and building, energy and industrial plant, realty and property and investment. WIKA current condition is showing the decreasing in stock price and Return on Equity (ROE), while its Account Receivable (AR) and Average Collection Period (ACP) is continue to increase. This indicates that the Company does not manage its working capital optimally. The objective of this researches is to give the best alternative solution to reduce Company average collection period by doing working capital management especially account receivable management. Account receivable management that used in this research are cash discount period, change on credit period, customers selection, combination between cash discount period and change on credit period, and combination of all those 3 (three) method. The results of this study is by using several technique of account receivable management, WIKA can reduce its average collection period, thus, it will reduce the investment on working capital, so, the Company could invest their money on the more productive assets and also distribute the additional profit gained as dividends to shareholder, so WIKA can turn back its share price. The Company can reduce its Account Receivable and get the biggest additional profit outright by apply cash discount period 2.96/60 net 229,4.

Keywords: Working Capital; Construction; Account Receivable Management; Average Collection Period; Cash Discount.

INTRODUCTION

WIKA’s stock price has continued to decline since 2015 until 2018, after experiencing a rising trend from 2010 to 2015. From the price of IDR 3,745 in January 2015, the share price continues to fall to the point of IDR 1,490 in December 2018, even though JCI tends to be increase from the price of IDR 5,289 in January 2015 to IDR 6,194 in December 2018.

When investors want to invest, they look first at the financial performance, good and bad financial performance can be measured through the financial ratios, which among others, namely Return on Equity (ROE). Simultaneously, Return on Equity affect the stock price, and it also has a strong relationship with Stock Price (Talamati, 2015). The decline in stock prices seemed to be in line with the decrease of Return on Equity (ROE).
There is WIKA ROE decline from 2014 until 2017 from 15.90% to 9.27%, although it experiences slight increase to 12.04% in 2018 but the result is not as high as in 2014.

There is strong corellation between share price and ROE, The higher Company ROE means the better Company financial performance in managing its capital to generate profits for shareholders, it can be said that the company can use shareholders' capital effectively and efficiently to make a profit, with the increase in net income the ROE value should be increased so investors are interested in buying Company shares, which ultimately increases the company's share price (Chrisna, 2011). This research aims to determine the causes of the decline in WIKA's ROE and provide recommendations for company to improve the Company's financial performance.
In this research, scope and limitations is used due to problem solving focused. There are:

a. In this research, the author uses secondary data from year 2014 until 2018 from the Company’s annual financial report.
b. This research is written from the Company’s point of view.
c. This research is not concern about internal political issues.

Author analyzes the annual report and financial statement of PT. Wijaya Karya to know Company’s current condition using DuPont Analysis. The DuPont system of analysis is used to dissect the firm’s financial statements and to assess its financial condition. It merges the income statement and balance sheet into two summary measures of profitability, return on equity (ROE) and return on total assets (ROA).

WIKA stock price is continue to decline from 2014 until 2018, from the external and internal analysis, Author can conclude that within external analysis, external environment supports WIKA’s business as a state owned company in construction industry, but on internal analysis it is found that WIKA's ROE is problematic and continues to decline for the last 5 years and the source of the problem is WIKA ACP which has continued to increase in the last 5 years.

So, Author conclude that root cause of the decline in stock prices was caused by the decline of company's performance that marked by a continuous decline in ROE. The continued downward ROE can reduce investor confidence because it is one of

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indication of the company's continued decline. After further analysis, one of the reason of ROE decrease is caused by the decreasing of TATO that indicated that there are inefficiency process on the company, therefore working capital needed is increased year by year. Thus, Author continue to calculate the Average Collection Period (ACP) and Average Payment Period (APP), and Author found that WIKA's ACP continues to increase from 2015 until 2018. Author can say that the continuous increase of ACP is the root cause of WIKA share declining, thus reduce account receivable can be one of solution to reduce account receivable and increase free cash flow. In addition, reduce investment in account receivable also can give additional net profit for the Company that can be distribute as dividend to increase shareholder trust, thus can increase its stock price.

LITERATURE REVIEW

Return on Equity (ROE) is one of the financial ratios that are often used by investors to analyze stocks. This ratio shows the level of effectiveness of the company's management team in generating profits from funds invested by shareholders (Gitman, 2011). The higher the ROE, the greater the profit generated from the amount of funds invested so that it reflects the level of financial health of the company. Financial leverage multiplier is the ratio of the firm's total assets to its common stock equity.

Return on Assets (ROA) is one of the profitability ratios that can measure the ability of a company to generate profits from used assets. ROA can measure the ability of a company to generate profits in the past for future projection (Muchlisin, 2017).

Net Profit Margin (NPM) is the ratio of profitability used to measure a company's percentage of net profit against its net sales. This Net Profit Margin shows the remaining proportion of sales after all related costs have been deducted. This margin of net profit is often referred to as the margin ratio of profit.

The turnover ratio of assets is an efficiency that measures the sales of a company from its assets by comparing net sales with average total assets. In other words, the ratio shows how efficient sales can be generated by a company using its assets (Gitman, 2011).

Working capital management is short-term financial planning that helps corporations keep their operational activity going. Horne and Wachowicz (2000) said an inadequate level of working capital could result in day-to-day operations shortages and problems. Working capital management is important for the growth and profitability of a company.

The cash conversion cycle (CCC) measures a company's length of time to convert cash invested in its operations to cash received as a result of its operations (Gitman, 2011). There are three main components of cash conversion cycle, as shown in the following equation: (1) average inventory age, (2) average collection period and (3) average payment period (Gitman, 2011).
Inventory average age is the average number of days a company takes to sell off inventory. The average inventory age tells the analyst how quickly one company turns inventory over another. The faster a business can sell for profit inventory, the more profitable it is (Gitman, 2011).

The average collection period, or average age of accounts receivable, is useful in evaluating credit and collection policies. It is arrived at by dividing the average daily sales into the accounts receivable balance (Gitman, 2011):

The Average Payment Period (APP) is defined as the number of days that a business takes to pay off purchases of credit. It is calculated as (total annual purchases/365) accounts payable. As the average payment period increases, cash should increase as well, but working capital remains the same (Gitman, 2011).

METHODOLOGY

Author analyzes the annual report and financial statement of PT. Wijaya Karya to know Company's current condition. There are three methods that will be used in the conceptual framework. First, PESTEL analysis to identify the external factor from market (Hitt, 2011). Second, Porter's five forces analysis will be used to explore competition, suplier power, buyer power, threats of new entrants, and substitute product which impact on construction industry (Hitt, 2011). Third, for internal analysis, DuPont Analysis will be used to find the root cause and give the best solution that can be proposed to solve the problem (Gitman, 2011).

FINDINGS AND ARGUMENT

The increase of ACP is the root cause of WIKA share declining, thus account receivable management can be the best solution to reduce account receivable and increase its cash to gain back the trust of WIKA's shareholders.

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The objective for managing accounts receivable is to collect accounts receivable as quickly as possible without losing sales from high-pressure collection techniques. Related to root cause, this research will be focused on Average Collection Period (ACP) Reduction. There are several methods that will become an alternative to reduce WIKA ACP, there are Customers Selection, Change on Credit Period, Cash discount, Combination between Cash Discount and Change on Credit Period and Combination between Customers Selection, Change Credit Period and Cash Discount.

1. Customers selection
   If WIKA change Government and SOE customer portion, WIKA ACP will be decrease
2. Change on Credit Period
   WIKA Change its credit period become 216,4 days (Industry standard) and 110,1 days (WIKA ACP on 2014)
3. Cash Discount
   WIKA Apply cash discount with 5 scenario to decrease ACP and gain additional net income.
   WIKA proposed to apply cash discount with below assumptions:
   - Variable cost is remain same with actual in 2018 or (1-0.1221*Revenue)
   - ACP present is 229,4; remain same with actual in 2018 (Table 2.8)
   - Opportunity cost is 6%; same with deposit rate (Tradingeconomics, 2019)
   - Customers probability that will take cash discount is 40%; assumed customers that will take cash discount is non government and stated owned company.
4. Combination between Change on Credit Period and Cash Discount
   WIKA change the credit period policy and apply cash discount with the new policy. Author will apply 5 (five) scenarios with these assumptions:
   - Variable cost is remain same with actual in 2018 or (1-0.1221*Revenue)
   - ACP present is 216,4;same with ACP industry in 2018 (Table 2.8)
   - Opportunity cost is 6%; same with deposit rate (Tradingeconomics, 2019)
   - Customers probability that will take cash discount is 40%; assumed customers that will take cash discount is non government and stated owned company.
5. Combination Between Customers selection, Change on Credit Period and Cash Discount
   WIKA Change its credit period, and its customers proportion and apply cash discount by those terms. Author will apply 5 (five) scenarios with these assumptions:
   - Variable cost is remain same with actual in 2018 or (1-0.1221*Revenue)
   - ACP present is 216,4;same with ACP industry in 2018
   - Opportunity cost is 6% (deposit rate)
   - Customers probability that will take cash discount is 46.7%; assumed customers that will take cash discount is non government and stated owned company.

The result of those methods show in table below:

Tabel 1 WIKA Scenarios

No	Methods	Scenario	Additional Revenue	Customers probability that will take cash discount	Proposed ACP (days)	Net profit from initiation of proposes cash discount (IDR Million)
1	Customers Selection (CS)				216.4	0
2	Cash Discount (CD)	1/60 net 229,4	5.94%	40%	216.4	95,195
3	Cash Discount (CD)	2/60 net 229,4	12.52%	40%	216.4	133,728
4	Cash Discount (CD)	2.96/60 net 229,4	12.52%	40%	216.4	0
5	Cash Discount (CD)	2.96/60 net 229,4	40.14%	40%	110.1	1,350,134
6	Cash Discount (CD)	10.72/60 net 229,4	40.14%	40%	110.1	0
7	Change on Credit Period (CCP)				216.4	0
8	CD&CCP	1/60 net 216,4	5.94%	40%	110.1	543,111
9	CD&CCP	2/60 net 216,4	12.52%	40%	110.1	613,096
10	CD&CCP	6.39/60 net 216,4	12.52%	40%	110.1	0

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11	CD&CCP	6.39/60 net 216,4	40.14%	40%	110.1	695,284
12	CD&CCP	10.39/60 net 229,4	40.14%	40%	110.1	0
13	CD&CCP	1/60 net 216,4	5.94%	46.70%	110.1	578,857
14	CS, CD & CCP	2/60 net 216,4	12.52%	46.70%	110.1	623,311
15	CS, CD & CCP	5.81/60 net 216,4	12.52%	46.70%	110.1	0
16	CS, CD & CCP	5.81/60 net 216,4	40.14%	46.70%	110.1	680,661
17	CS, CD & CCP	9.14/60 net 229,4	40.14%	46.70%	110.1	0

The best scenario WIKA should apply is Cash discount method 2.96/60 net 229.4. This scenario is expected to be taken by 40% WIKA customers, increase WIKA revenue until 40.14% and reduce its ACP become 110.1 days. In addition it results additional net profit IDR 1,350,134 Million.

CONCLUSIONS

After further analysis Author conclude that WIKA's average collection period (ACP) tends to increase from 110.1 days in 2014 to 229.4 days in 2018. The increase investment in ACP can lead to increase company investment in working capital, so that the capital owned by the company cannot be optimally utilized. ACP reduction can be the best way to improve company efficiency so that it can reduce account receivable and can reduce company investment in working capital.

Recommendation

After knowing various solutions to manage account receivable, the best solution to be applied in WIKA is Cash discount method 2.96/60 net 229.4. This scenario is expected to be taken by 40% WIKA customers, increase WIKA revenue until 40.14% and reduce its ACP become 110.0 days. In addition it results additional net profit IDR 1,350,134 Million. Additional net profit can be used by WIKA to convert as dividend. Dividend distribution can increase shareholder trust so that can turn back the price of WIKA's shares.

Implementation Plan

The strategy for managing working capital is not the one-time project. This is a strategy of sustainability that is constantly monitored and adjusted. Working capital management implementation will be consists of identifying and analyzing, implementing strategies, monitoring, reviewing and feedback:

1. Identification and Analysis
   The company should identify and analyze its current financial performance before implementing the strategy. The company can conduct the financial performance evaluation of the corporation to evaluate the effectiveness of its current management of working capital.
2. Strategy Implementation
   The company then implements the strategy based on the most profitable scenario after analyzing the current financial performance. The implementation should cover all required components. Starting with the revision of the working capital policy document and procedure become 2.96/60 net 229.4, distribute the information and give direction to the WIKA respective responsible person. Additional net profit generated from proposed cash discount can be distribute as dividend to shareholder. So that, it is expected to improve WIKA stock price.
3. Monitoring
   It is necessary to monitor the implementation of the strategy on a regular basis to ensure that the actual practices are consistent with the goal of the strategy. Average Collection Period (ACP) and Aging of Account Receivable may be used in this monitoring process.
4. Review and feedback
   The final step is to review the corporate financial performance effectiveness after apply the strategy. Each strategy of maximizing and minimizing work capital components has the cost-benefit effects, the company should review if the benefit of implementing the strategy exceeds the cost and significantly contributes to improving the financial performance of the company.

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