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Corporate Strategy in Merger Plans for Construction-Based Business State Owned Enterprises Case Study: (PT. Pembangunan Perumahan Tbk. and PT. Wijaya Karya Tbk)

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ABSTRACT: This research discusses the ministry of SOE's plan to take strategic steps by combining several companies in the construction sector. One of the companies that will be merged is PT. Pembangunan Perumahan Tbk and PT. Wijaya Karya Tbk. This research uses qualitative methods by using secondary data sources. This research begins by consolidating the financial statements of both companies to find out the total assets and expenses of both companies.It is known that after consolidation was carried out and linked to corporate strategy, the company was in position of retrenchment stage. The next analysis is a restructuring step using hexagonal restructuring framework. The company needs to release several of it's subsidiaries operating in industrial, property and realty, and energy sectors. Whereas the company will maintain it's subsidiaries in the construction, EPC, and equipment sectors.The analysis results show that the company needs to streamline it's assets through the release of several subsidiaries that don't support the core business.The results of the company's financial projections show that the company will be able to gain profits in the future after restructuring was carried out.

KEYWORDS: Corporate strategy, Consolidation. Hexagonal Restructuring, Projection, Construction.

INTRODUCTION

As a developing country rich in natural resources, Indonesia has the opportunity to continue to grow and attract both local and foreign investors with its natural wealth and human resources. Growth cannot be separated from development, the construction sector is one of the main sectors contributing to Indonesia's Gross Domestic Product. This is verified based on data from BPS in 2023, that the construction sector is in fifth place below the processing industry, trade, agriculture and mining. The construction sector contributes 9.92% of Indonesia's PDB. The Ministry of State Owned Enterprise (SOE) plans to consolidate the construction sector BUMN which originally had 7 companies into 3 companies. This consolidation is planned so that the company can focus more on working on its main areas.

This merger plan will later be separated into three clusters, namely the PT Wijaya Karya Tbk (Persero) and PT. Pembangunan Perumahan (Persero) which will focus on seaport, airport and residential projects. PT. Hutama Karya (Persero) and PT. Waskita Karya Tbk (Persero) which will focus on toll road, non-toll road, institutional building and residential commercial projects, as well as PT. Adhi Karya Tbk (Persero), PT. Nindya Karya (Persero) and PT. Brantas Abipraya (Persero) will focus on water infrastructure development projects, rail and several similar contexts. This merger step is an effort to restore health within the BUMN environment.

Therefore, the Ministry of SOE as the regulator that supervises and manages the performance of SOE plans to take strategic steps by reducing the number of SOE in the construction sector. This step will reduce the number of SOE's in the construction sector by merging seven companies into three companies. One of these scenarios is a merger between PT. Pembangunan Perumahan (Persero) with PT. Wijaya Karya (Persero). It is hoped that this research will be able to contribute to determining corporate strategy if a merger is carried out.

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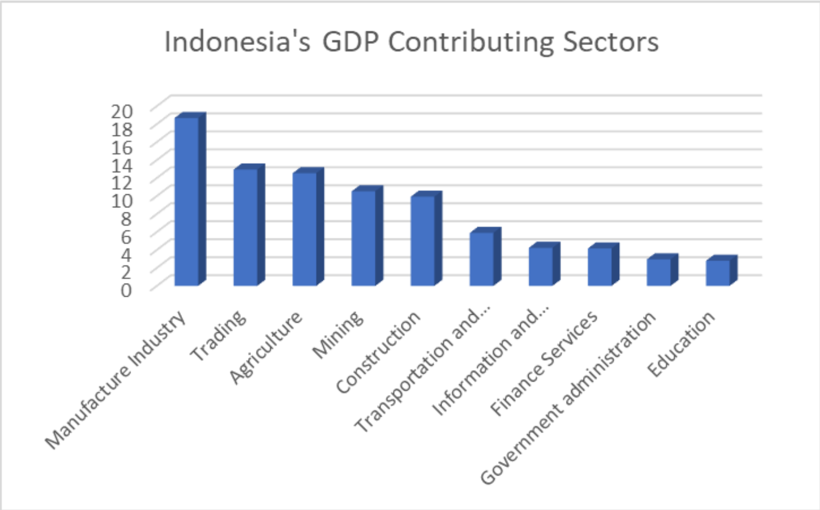

Currently the financial condition of PT. Pembangunan Perumahan (Persero) and PT. Wijaya Karya (Persero) is not doing well. The company has a very large debt burden both to suppliers/subcontractors and to lenders, both banks and debt securities issued. The interest burden that the company must bear makes it difficult for the company to obtain positive net income in the current year. One of the goals of establishing BUMN is to be able to provide income for the state, not only in the form of taxes but also contributions in the form of dividends distributed. It is hoped that this step will enable the post-merger company to obtain positive net income and become a construction company that is able to compete in domestic and international markets.

THEORETICAL FRAMEWORK

Corporate Strategy

A corporate-level strategy delineates the actions a firm undertakes to secure a competitive advantage by selecting and managing a portfolio of diverse businesses operating in different product markets. Such strategies assist companies in identifying new strategic positions that are anticipated to enhance the firm's overall value. Firms employ corporate-level strategies to drive revenue and profit growth, though pursuing such growth is inherently risky. Corporate-level strategy primarily addresses two crucial issues: the product markets and businesses in which the firm should compete, and the manner in which corporate headquarters should oversee these businesses (Hitt et al., 2016). Product diversification, a key component of corporate-level strategies, pertains to the range of markets and industries in which the firm competes and the process by which managers acquire, develop, and divest businesses to align skills and strengths with market opportunities. Effective diversification aims to reduce the variability in a firm's profitability by generating earnings from multiple business units. Given the development and monitoring costs associated with diversification, an optimal business portfolio balances these costs against the benefits of diversification.

Consolidation

Consolidation refers to the process where two or more companies merge, resulting in the disappearance of their original identities and the emergence of a new entity with a unified name. During consolidation, multiple companies come together and cease to exist individually, instead forming a single new entity. This new entity assumes all assets and liabilities previously held by the merging companies, effectively dissolving them under legal terms (Beams et al, 2015).

Restructuring

Restructuring is a strategic approach through which a firm alters its set of businesses or financial structure. A restructuring strategy often follows the failure of an acquisition strategy. Firms adopt restructuring strategies in response to changes in their external and internal environments. There are three primary types of restructuring strategies: downsizing, downscoping, and leveraged buyouts (Hitt et al, 2016). There are five analytical steps a company should pursue to develop its portfolio of businesses. Each step lands at

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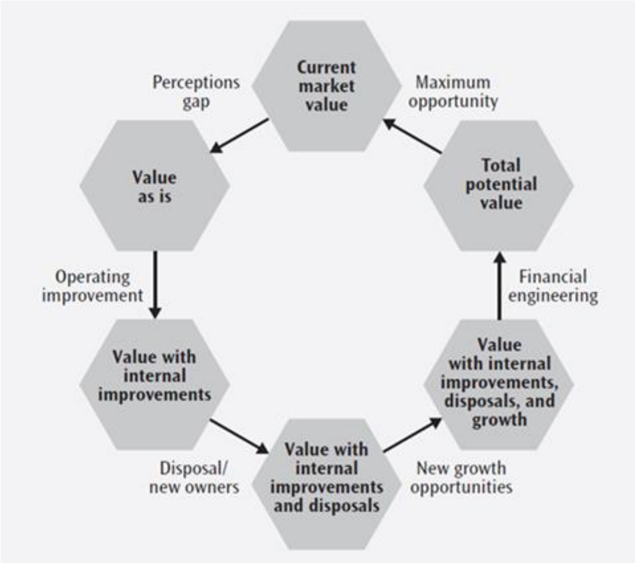
a higher-level value, moving from current market value to total potential value. The first step in restructuring strategy is identifying the company's gaps through benchmarking with other companies. Next, to reduce these gaps,



the company needs to make improvements internally. The third step involves sorting and reducing unproductive assets for the corporation. Subsequently, the company should seek new growth opportunities within the industry by focusing on its vision. The following step is financial engineering, which includes assessing and improving the company's current financial condition. The final step is making improvements to focus on the core business to achieve optimal performance (Koller et al., 2010).

Financial Performance Analysis

The purpose of this analysis is to meet the information needs of investors, creditors, and management by comparing financial data for investment decisions, funding sources, and managerial purposes (Brealey et al, 2013). According to Higgins (2007), financial ratios can be classified into several main types, which are liquidity ratio, financial leverage ratio, and profitability ratio. Liquidity ratio which are current ratio, quick ratio, cash ratio. Financial leverage ratio including debt to equity ratio, debt ratio, times interest earned ratio, and equity multiplier. Profitability ratio including profit margin, return on asset (ROA), return on equity (ROE).

RESEARCH METHODS

This study uses a descriptive qualitative methodology to investigate and assess the possible merger of PT. Pembangunan Perumahan (Persero) and PT. Wijaya Karya (Persero). Qualitative research is a perfect fit for this study because, as Creswell (2017) suggests, it is good at capturing the subtleties and complexities of organizational behaviors and strategic decisions. Secondary data was obtained through financial reports and annual reports published by the company. The selection of secondary data was used because the companies had not yet carried out a merger, so to obtain information for this research the author used data from each company. The secondary data used was obtained through IDX and the company's official website so that its accuracy can be confirmed.

RESULTS AND DISCUSSION

Consolidation

After consolidated company will has total current assets of IDR 61,571,299,584,837 consisting of cash and cash equivalents worth IDR 7,409,870,969,748, trade receivables of IDR 20,727,680,324,381, inventories of IDR 21,789,420,233,721, prepayments of IDR 1,336,149,971,959. IDR 2,164,930,882,437 prepaid taxes, prepaid expenses amounting to IDR 1,880,804,911,358, work in progress amounting to IDR 5,271,106,018,358, and other current assets amounting to IDR 648,463,100,875. Company will also has non current asssets consisting of IDR 60,413,373,560,770 and make it has the total assets of IDR 121,984,673,145,607.

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Balance Sheet			
Assets			
Current Assets	**PTPP**	**WIKA**	**Consolidated**
Cash and cash Equivalent	4.176.799.592.748	3.233.071.377.000	7.409.870.969.748
Accout Receivables	13.604.022.551.334	7.645.263.090.000	20.727.680.324.381
Inventories	10.378.008.680.721	11.411.411.553.000	21.789.420.233.721
Advance Payments	457.052.594.959	879.097.377.000	1.336.149.971.959
Prepaid Taxes	597.052.766.437	1.567.878.116.000	2.164.930.882.437
Prepaid Expense	915.406.939.358	965.397.972.000	1.880.804.911.358
Business Guarantee	-	342.873.172.000	342.873.172.000
Work In Progress	514.442.693.358	4.756.663.325.000	5.271.106.018.358
Other Current Assets	648.463.100.875	-	648.463.100.875
Total Current Assets	**31.291.248.919.790**	**30.801.655.982.000**	**61.571.299.584.837**
Non-Current Assets			
Investment in Associates & Joint Ventures	707.247.064.230	13.876.912.979.000	14.584.160.043.230
Investment in Joint Operations	-	267.839.243.000	267.839.243.000
Investment Property	7.314.015.087.625	3.411.811.751.000	10.725.826.838.625
Fix Assets	3.859.214.974.639	8.115.699.672.000	11.974.914.646.639
Goodwill	277.036.234.877	4.847.052.000	281.883.286.877
Deffered Tax	-	32.192.508.000	32.192.508.000
Other non Current Assets	13.076.280.293.399	9.470.276.701.000	22.546.556.994.399
Total Current Assets	**25.233.793.654.770**	**35.179.579.906.000**	**60.413.373.560.770**
Total Assets	**56.525.042.574.560**	**65.981.235.888.000**	**121.984.673.145.607**

In the Current Liabilities section, consolidated company has total current liabilities of IDR 64,417,939,845,999, consisting of short-term loans from banks amounting to IDR 20,802,500,700,212, trade payables amounting to IDR 24,991,285,929,910, taxes payable amounting to IDR 1,715,262,201,107, down payments from customers amounting to IDR 1,004,655,957,603, as well as rental liabilities, bonds and other current liabilities amounting to IDR 15,904,235,057,166. Company will also have a high long term liabilities from bank, bonds, and sukuk for IDR 29,776,912,970,889 and make it's total non-current liabilities for IDR 32,361,768,866,976. Make it's total liabilities amounting IDR 96,779,708,712,975.

Total consolidated income reached IDR 42,363,701,852,859. Even though PTPP's revenue is lower than WIKA's, PTPP's gross profit of IDR 2,382,265,259,825 is higher than WIKA's IDR 1,862,146,368,000, which shows that PTPP has better production cost efficiency. Consolidated EBIT shows that company doesn't have a good performance because of it's loss in EBIT, and has a big finance cost make their EBT getting bigger amount to IDR 7,629,613,261,264. The consolidated results show a net loss of IDR 7,710,721,462,391, reflecting poor financial performance in that period.

	PTPP	WIKA	Consolidated
LIABILITIES			
CURRENT LIABILIITIES			
Short Term Loans-Bank	3.679.326.546.165	17.613.134.212.000	20.802.500.700.212
Trade Payables	15.230.762.641.863	10.282.128.605.000	24.991.285.929.910
Tax Payables	957.791.685.107	757.470.516.000	1.715.262.201.107
Advances From Customers	108.054.386.603	896.601.571.000	1.004.655.957.603
Lease Liabilities, Bonds, and other current	7.016.276.366.166	8.887.958.691.000	15.904.235.057.166
Total Current Liabilities	**26.992.211.625.904**	**38.437.293.595.000**	**64.417.939.845.999**
NON-CURRENT LIABILIITIES			
Employee Benefits	97.680.954.958	269.871.182.000	367.552.136.958
Deffered Tax	-	77.042.686.000	77.042.686.000
Advances from customers	64.761.811.240	1.815.589.651.000	1.880.351.462.240
Long term Liabilities-Bank, Bonds, Sukuk	13.967.087.238.889	15.809.825.732.000	29.776.912.970.889
Other non-current liabilities	259.909.610.889	-	259.909.610.889
Total Current Liabilities	**14.389.439.615.976**	**17.972.329.251.000**	**32.361.768.866.976**
Total Liabilities	**41.381.651.241.880**	**56.409.622.846.000**	**96.779.708.712.975**

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Income Statement			
	PTPP	WIKA	Consolidated
Revenue	**19.993.925.571.859**	**22.530.355.784.000**	42.363.701.852.859
Cost Of Revenue	**- 17.611.660.312.034**	**- 20.668.209.416.000**	- 38.132.562.209.780
Gross Profit	**2.382.265.259.825**	**1.862.146.368.000**	**4.231.139.643.079**
Operating Expenses	- 741.584.660.711	- 984.268.743.000	- 1.725.853.403.711
Impairment Loses	- 256.469.458.211	-	- 256.469.458.211
Share in profit of Joint Ventures	676.855.722.388	- 139.283.235.000	537.572.487.388
Share in profit (loss) of associates	72.520.023.172	- 91.143.623.000	- 18.623.599.828
Other income	444.436.428.044	697.835.297.000	1.142.271.725.044
Other expense	- 728.043.128.395	- 5.404.164.143.000	- 6.132.207.271.395
Final tax expense	- 494.147.234.198	- 500.558.070.000	- 994.705.304.198
EBIT	**1.355.832.951.914**	**- 4.559.436.149.000**	**- 3.216.875.181.832**
Interest Expense	- 1.206.628.832.432	- 3.206.109.247.000	- 4.412.738.079.432
EBT	**149.204.119.482**	**- 7.765.545.396.000**	**- 7.629.613.261.264**
Income Tax (Expense)	- 22.114.600.127	- 58.993.601.000	- 81.108.201.127
Net Income	**127.089.519.355**	**- 7.824.538.997.000**	**- 7.710.721.462.391**

Several subsidiaries operating in sectors that do not focus on the company's vision will be sold or divested. It is hoped that this will help the parent company achieve its vision with more focus. The release of subsidiaries refers to corporate strategy theory, where previously the company used mixed related diversification linked moderate to high diversification, which will be changed to related constrained diversification. It is hoped that the company will be able to achieve economies of scale to increase its competitive advantage.

It is known that the number of WIKA employees in 2023 will be 2,269 people, while PTPP has a number of employees reaching 1,780. When combined, the number of employees of these two companies will reach 4,049 people. This figure was before the company downsized its subsidiaries. If calculated using assumptions, there will be 6 companies from WIKA that will be released, then the number of employees from WIKA will be 757 people, while from PTPP there will be 7 companies released, so the number of employees from PTPP will be 712 people. In total, the number of employees in the company after asset disposal and consolidation will be 1469 people. This figure only amounts to 36% of the initial amount. Of course, this will reduce operational expenses that the company must bear. After being able to cover interest-bearing debt from bank loans, bonds, sukuk, and others, the company will be left with 45 percent of interest-bearing debt, namely long-term loans that must be paid.

Sector	Company	Ownerships
Energy	PT. PP Energi	99,09%
Lease Equipment	PT. PP Presisi	76,99%
Industry	PT. WIKA Beton	60,00%
	PT. WIKA Gedung	69,30%
	PT. WIKA Industri dan Konstruksi	98,58%
	PT. WIKA Bitumen	99,00%
	PT. PP Urban	99,99%
Investment	PT. WIKA Serang Panimbang	99,12%
	PT. PP Semarang Demak	100,00%
	PT. PP Infrastruktur	99,00%
Mechanical Electrical	PT. WIKA Rekayasa Konstruksi	97,99%
Property and Realty	PT. PP Properti	64,96%
	PT. Sinergi Colomadu	85,70%
	PT. Centurion Perkasa Iman	67,82%
	PT. PP Sinergi Banjaratma	79,04%
	PT. WIKA Realty	72,51%
Water Management	PT. WIKA Tirta Jaya Jatiluhur	88,38%

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*In Million Rupiah				
Consolidated				
Sector	Revenue	Gross Profit	EBT	Net Income
Construction	Rp 38.597.780	Rp 3.579.628	-Rp 7.414.444	-Rp 7.455.039
EPC	Rp 6.438.481	Rp 357.957	-Rp 694.797	-Rp 723.119
Property and Realty	Rp 3.740.650	Rp 457.590	-Rp 3.194.020	-Rp 3.140.020
Industry	Rp 5.137.267	Rp 366.646	Rp 99.421	Rp 35.979
Equipment	Rp 196.757	Rp 81.949	Rp 20.021	Rp 11.014
Energy	Rp 147.107	Rp 22.840	-Rp 198.476	-Rp 198.476
Investment	Rp 152.170	Rp 27.100	-Rp 545.964	-Rp 552.625

Using the assumption that there will be no increase in corporate tax, namely 22 percent of earnings before tax (EBT). If projections are made using the assumptions above, it is estimated that the company will be able to make a profit every year. This net income figure does not reach a large net profit margin when compared to the revenue obtained, considering that the industry in the construction sector is capital intensive and labor intensive.

This projection shows that the company will be able to survive and continue to make a profit from running its business. It should be emphasized that for the time being the company must carry out horizontal expansion to obtain the widest possible market in the same sector. If the expansion is carried out vertically, it will of course require initial investment and the possibility that it will occur will be the same as before the company was downsized.

CONCLUSION

The company's consolidation results show that the company's total assets reached IDR 121,984,673,145,607, consisting of current assets of IDR 61,571,299,584,837 and non-current assets of IDR 60,413,373,560,770. Consolidation shows that the company will have total liabilities of IDR 96,779,708,712,975 consisting of IDR 64,417,939,845,999 current liabilities and IDR 32,361,768,866,976 non-current liabilities. Meanwhile, the total consolidated equity is IDR 24,715,004,374,680.

The company's consolidated income statement will receive revenue of IDR 42,363,701,852,859 with a gross profit margin of IDR 4,231,139,643,079. The total EBIT of the company resulted in a loss of IDR 3,216,875,181,832 plus interest expense of IDR 4,412,738,079,432 and income tax of IDR 81,108,201,127. So the company received a net income loss of IDR 7,710,721,462,391.

Based on hexagonal restructuring, the company has performance that is still below the company's benchmark which is the benchmark in the construction industry. The performance results per company business sector are only the industrial and equipment sectors that are able to gain profits. Sorting and disposal is carried out in business lines that are not in line with the

Growth rate 5%						
	Current	2024F	2025F	2026F	2027F	2028F
Revenue	42.363.701.852.859	45.385.188.000.000	47.654.447.400.000	50.037.169.770.000	52.539.028.258.500	55.165.979.671.425
Cost Of Revenue	- 38.132.562.209.780	- 40.039.190.320.269	- 42.041.149.836.282	- 44.143.207.328.097	- 46.350.367.694.501	- 48.667.886.079.227
Gross Profit	**4.231.139.643.079**	**5.345.997.679.731**	**5.613.297.563.718**	**5.893.962.441.903**	**6.188.660.563.999**	**6.498.093.592.199**
Operating Expenses	- 1.725.853.403.711	- 621.307.225.336	- 621.307.225.336	- 621.307.225.336	- 621.307.225.336	- 621.307.225.336
Other Expenses	- 5.722.161.421.200	- 2.059.978.111.632	- 2.059.978.111.632	- 2.059.978.111.632	- 2.059.978.111.632	- 2.059.978.111.632
EBIT	- **3.216.875.181.832**	**2.664.712.342.763**	**2.932.012.226.750**	**3.212.677.104.935**	**3.507.375.227.031**	**3.816.808.255.231**
Interest Expense	- 4.412.738.079.432	- 1.985.732.135.744	- 1.985.732.135.744	- 1.985.732.135.744	- 1.985.732.135.744	- 1.985.732.135.744
EBT	- **7.629.613.261.264**	**678.980.207.019**	**946.280.091.005**	**1.226.944.969.191**	**1.521.643.091.286**	**1.831.076.119.486**
Income Tax (Expense)	- 81.108.201.127	- 149.375.645.544	- 208.181.620.021	- 269.927.893.222	- 334.761.480.083	- 402.836.746.287
Net Income	- **7.710.721.462.391**	**529.604.561.475**	**738.098.470.984**	**957.017.075.969**	**1.186.881.611.203**	**1.428.239.373.199**

company's vision, namely by divesting subsidiaries in the energy, industrial, and property and realty sectors. Companies need to negotiate with creditors to carry out debt restructuring in order to reduce the company's burden. Companies need to focus on enlarging the market in the same business line or carrying out horizontal integration and refrain from carrying out vertical integration. By selling subsidiary assets, the parent company will have more liquidity and cash than before which can be used to pay off debts both to interest-bearing lenders and to suppliers and subcontractors. By paying off the company's short-term interest-bearing debt, the parent company will bear much less interest expense than before. This will of course enable the company to gain increased profits in the following years.

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