

RECOVERY OF RECEIVABLES IN AGRICULTURE COMPANY

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The purpose of this paper is to show the ways of managing and recovery of the receivables in agriculture companies in Slovenia. We used theoretical background and our experience. We also made a research to test the following research question: How big, middle and small agriculture company manage and recover receivables? The answers were obtained with semi-structured individual interviews that were conducted with three recognized directors of big, middle and small agriculture company in Slovenia. We realized that specially small and medium companies are vulnerable to unpaid receivables because they do not use a lot of ways to recover receivables.

Key words: *receivables, debt, recovery.*

ВЗЫСКАНИЕ ДЕБИТОРСКОЙ ЗАДОЛЖЕННОСТИ В АГРОКОМПАНИИ

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Цель данной статьи показать пути управления и взыскания дебиторской задолженности в сельскохозяйственных компаниях Словении. Мы использовали теоретические знания и наш опыт. Мы также провели исследование для проверки следующего исследовательского вопроса: насколько крупные, средние и малые сельскохозяйственные компании управляют и взыскивают дебиторскую задолженность? Ответы были получены с помощью полуструктурированных индивидуальных интервью с тремя признанными директорами крупных, средних и малых сельскохозяйственных компаний Словении. Мы поняли, что особенно малые и средние компании уязвимы перед непогашенной дебиторской задолженностью, потому что они не используют много способов взыскания дебиторской задолженности.

Ключевые слова: *дебиторская задолженность, задолженность, взыскание.*

Introduction

Receivables are revenues of the agriculture company, which are not paid by the customers of the company. That is the reason, why the company after selling goods and services should make certain steps to recover the receivables and have revenues paid. Unpaid revenues lead the company to unliquidity, insolvency and to bankruptcy. When we talk of financial indiscipline and the recovery of claims, the concept of liquidity occurs, which Brigham and Gapenski defined as the ability of transforming resources into cash at their fair market value (Brigham, Gapenski, 1997,

p. 12). Usually the reason for such problems is paying indiscipline of customers. In our opinion agriculture companies pay too little attention in managing receivables. Namely, claims are interest-free loans to debtors (Reider, Heyler, 2003). These are reasons why the purpose of this paper is to show the ways of managing and recovery of the receivables in agriculture companies in Slovenia.

Theoretical background

One of the effective ways to get paid your receivables is to manage them, which includes: optimal, transparent and high quality control of receivables, timely and effective response to customers debt, best possible insurance of claims, check of credit ratings and references and appropriate information system (Sibinčič, 2008).

Recovery of unpaid receivables is one of the most important functions in the company. Process of recovery is a lengthy, demanding, and above all, responsible process, the result of which should be the payment of receivables. In practice, receivables are managed by the financial department of the company, because they solve all problems that are in one way or another connected with cash and payment flows. Communication with managers, salespeople, field representatives, and, of course, communication with customers is of most importance for the success of recovery. We cannot create value without good relations with customers, employees, financial backers, suppliers, regulators, communities, and so on (Jensen 2002, p. 246).

Fear of loss of customers often discourages the company from systematically tackling the recovery of claims. Companies that have problems with debtors and delayed payments have also problems to settle their obligations with delay, so it is important that suppliers know the customer's policy and follow the trend of delays of individual buyers (Šenk, 2008).

The company in Slovenia is due to Slovenian Company Act categorised as small, middle or large company. It has to fulfil two of the below stated criteria (in the last 2 successive financial years):

Small company:

- the average number of employees in a financial year does not exceed 50,
- net sales revenue does not exceed EUR 8.000,000.00 (before EUR 8.800,000.00), and
- value of the assets does not exceed EUR 4.000,000.00 (before EUR 4.400,000.00).

Medium-sized company:

- the average number of employees in a financial year does not exceed 250,
- net sales revenue does not exceed EUR 40.000,000.00 (before EUR 35.000,000.00), and
- value of the assets does not exceed EUR 20.000,000.00 (before EUR 17.500,000.00).

Large company: is a company, exceeding the above stated criteria.

Below we are explaining most typical ways of recovery of receivables.

Reminding and recovery by phone

One step ahead of any recovery is keeping up to date records of payments situation. Without this, recovery is ineffective. A letter of reminder sent by mail is the most commonly used reminder method in addition to a telephone call. It consists of the data listed on the account beside which is a friendly call to pay the debt.

If the reminder is attached to the payment order, its impact is even greater. Before carrying out this step, it is recommended first to send a reminder by e-mail. Companies with a greater number of debtors have already made this step partially automated, while smaller companies are too often involved in the design and printing of reminders. If the debtor does not respond to this, the next step is a phone call. Usually, reminders are becoming more and more difficult in nature (for example, a warning note, a reminder before execution, and a reminder before the lawsuit). Phone recovery is a more personal and direct approach. When making a telephone call, we encounter at least two different types of debtors, the first are being aware that they will not be able to settle the obligations at the time of the transaction, while others have only the current liquidity problems.

Before we call the debtor by telephone, we have to pre-arrange an approximate scenario of telephone conversation and debt recovery. We need the right contact details of the debtor or person responsible for payment transactions. During the discussion, all key information such as: the name and address of the debtor, the contact person, the hour and the date of the telephone conversation, the possible debtor's remarks, the definition of the debt payment period and possible other debt settlement options (eg compensation) should be recorded, as precisely as possible. Since the phone reminding of customers can not last indefinitely, we need to set some boundaries. When the costs exceed the amount of debt (including default interests) that should be repaid, it is time to stop the recovery and decide for a court order or, in the extreme case, debt cancellation.

Debt recovery with detectives

Hiring a detective agency is one of the most sovereign ways of debt recovery, which is mainly decided by banks and insurance companies. This is standard practice abroad, while in Slovenia is not yet widespread. In fact, detectives do not execute recoveries, because the law does not allow them to do so. The task of the detective agency is primarily to determine the property and financial situation of debtors. They use only legal methods, such as checking entries in the land register, viewing archives of newspapers. Debt recovery with the detective is the most expensive method of recovery, therefore it is not used to recover minor debtors who are natural persons.

Personal visit

When recovery mode includes a personal visit, company have to decide, because it is time-consuming and represents a cost for the company. They are more advisable when it comes to higher amounts of money and when there is no proper response from the debtor side. A personal visit must be announced in advance, as otherwise recovery will acquire a taste of threat and extortion.

Compensation

Compensation is one of the ways of settling mutual obligations without the transfer of funds. The debtor may set aside the claim he has against the creditor with

that what he requires of him, if both claims are expressed on money or other substitute items of the same kind and of the same quality, and if both are due. Depending on the way of creation we distinguish unilateral and agreed compensations. Depending on the number of participants, bilateral and multilateral compensation.

Factoring

Factoring is a process where a factor (specialized institution) purchases receivables from transported goods and services rendered, and in addition it also carries on, for the seller's of claims, another financial service.

Enforcement

Enforcement is judicial recovery. The creditor may initiate the appropriate enforcement procedure against the debtor on the basis of one of the enforcement titles or one of the authentic instruments. The most important is the fact that the creditor may request enforcement only after it becomes enforceable executory title. It becomes enforceable when it becomes legally binding and the creditor has used all legal means of contesting the claim.

An application for enforcement may be filed by one who is designated as a creditor in the enforcement title. The executive proposal must contain at least the following:

- an indication of the creditor and debtor with full address information and identification data
for the debtor,
- debtor's obligation,
- means of enforcement (enforcement of the debtor's money, execution of movable property,
enforcement of immovable property, execution of the shareholder's share ...)
- subject of enforcement must be precisely defined,
- an application to allow the court against the debtor to perpetrate and enforce the enforcement,
- in the case of execution on the basis of a credible document, deadline for the voluntary fulfillment of the obligation must be included.

Research question and discussion

In the article, we ask the following research question: *How big, middle and small agriculture company manage and recover receivables??*

The answers were obtained with semi-structured individual interviews that were conducted with three recognized directors of big, middle and small agriculture company in Slovenia. Interviewees described their own experience and of managing and recover od receivables.

From the interviews we summarised the following:

Large, medium and small companies use the following ways of managing and recovering the claims:

- regularly monitoring the credit ratings of new customers,
- carefully choosing the business with new potential buyers,

- working closely with customers,
- insuring receivables, the sum of which is over EUR 500,
- initiating out-of-court recovery from authorized agencies, after the expiration of the specified deadline, or even at the slightest suspicion that the claim will not be paid,
- offering discounts for advance payments
- regular monitoring of the movement of trade receivables through the monthly financial planning system and taking measures for recovery and further business
- using of electronic enforcement system for domestic customers.

Large company also organizes monthly meetings of the financial and sales departments where all outstanding invoices, that are due until the date when the meeting is convened, has to be reviewed. Each salesperson tells a recovery plan for their customers. These are usually first written reminders followed by phone calls. If this form of recovery is unsuccessful, in agreement with the financial department, the buyer will be put in the process of recovery through compensation or judicial enforcement.

Large company also analyses receivables quarterly, within the year. The analysis of trade receivables is carried out using the indicators that are:

- proportion of trade receivables in total assets,
- proportion of trade receivables in floating assets and
- proportion of trade receivables in whole sale.

Large company estimates receivables using the indicators that are:

- ratio between trade payables and trade receivables,
- coefficient of turnover
- days of binding.

Large company also monitors due and non due receivables, as it is seen in Table 1

Table 1 – The ratio of due and non-due receivables, in EUR.

Date	31.12.2015	31.12.2014
Open receivables	2.380.799	4.863.166
Outstanding receivables	1.200.069	2.312.712
Overdue receivables	1.180.730	2.550.454
% of overdue receivables	49,59	52,44

Source: From the interview of big company "X"

The Table 1 could be explained: The value of all open trade receivables on the last day of the financial year amounts to EUR 2.380.799, of which the overdue receivables and receivables in the action are EUR 1.180.730 Overdue receivables are those which had already passed the payment deadline. The outstanding receivables include unpaid receivables within the payment period and include regular trade receivables domestic and abroad in the amount of EUR 1.200.069 (Table 1).

Large company also monitors the age structure of these receivables as seen in Table 2, which shows the age structure of receivables by maturity, in EUR. The age structure of receivables shows how many days from the due date customers are late with their payments.

Table 2 – Age structure of receivables by maturity, in EUR.

Date	31.12.2015	31.12.2014
Outstanding receivables	1.200.069	2.312.712
Up to 180 days	596.795	1.602.169
Up to 360 days	298.565	118.238
Up to 2 years	169.190	126.169
Over 2 years	116.180	703.878
Total	2.380.799	4.863.166

Source: From the interview of big company "X"

The Table 2 could be explained: From the age structure, is evident decrease in outstanding receivables and receivables due for up to 180 days. The receivables that are due up to 360 days are mostly disputed receivables, by which customers are delaying. Receivables matured up to 2 years have increased. The latest period represents receivables on companies that are in compulsory settlement or bankruptcy.

Conclusion

With theoretical background and semi-structured individual interviews we showed, how could the agriculture company manage and recover it's receivables. The research showed that big agriculture company is better in managing operating receivables than small and middle companies.

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