



Transforming Financial Planning and Control by Using Beyond Budgeting Concept Case Study in Garment and Mining Companies in Indonesia

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Abstract

Traditional budgeting process is considered very rigid and time consuming and sometimes reducing optimal benefit to the company. Some companies have begun to turn to beyond budgeting process which proved to have a positive impact to the company, such as faster decision-making, empowerment of middle management and providing a quick response to the changes in business environment.

This research explores and compares financial planning and control implemented in companies with those of beyond budgeting concept. Based on case study in two garment companies and one mining contractor, I find that corporate budgeting in these companies are adaptive to changes in the environment; rolling forecast is implemented based on customers' needs obtained by marketing people; control is conducted in multi level process control; financial information is transparent; companies' resources are accessible to all departments through an easy and fast approval. On the other hand, there are some constraint faced by these enterprises in implementing beyond budgeting process, such as the dominant of owner's role in the decision making process and the insufficient quality of human resources that need to be developed.

Keywords: beyond budgeting, adaptive budgeting, financial planning, and financial control.

INTRODUCTION

Competition in today business is getting severe. Companies are required to meet the desires and expectations of consumers more quickly and precisely. The company's success is strongly influenced by the sensitivity and speed of the company to capture the opportunities available prior to use by other parties. But in reality it is not easy for a company to be able to respond to the customer's needs quickly if internal conditions do not support the company's internal realization of this kind of action.

One of the conditions that hold back this process is the budget planning that considered very rigid and less or do not support such an intense and dynamic changes. As a result, decision makers are not able to respond to customer demands quickly. They can only carry out routine activities in accordance to perform a predetermined plan. It is undeniable that the budget has an important role in the company. It is a management tool for planning, coordinating, and controlling. Planning determine what actions should



be taken to realize the company's goals while coordinating and controlling assess what has been done and compared with the plans that have been prepared. The budget should help management in decision-making process. However, it is often even hamper the process, especially when the company faced a high uncertainty business environment. This is because traditional budget cannot easily be changed.

Traditional budgeting process is considered very time consuming and too rigid. The impact of this process is the absorption of energy, money, and time to the planning and controlling processes which is possibly will give less benefit to the company. Some companies have begun to turn to beyond budgeting process which proved to create a positive impact for the company especially related with fastening decision-making process, empowering middle management, and providing a quick response on the changes business environment that constantly changing and evolving. So the modification would only obstruct the process of implementation the agreed plan. The traditional budgeting process is difficult in responding to the opportunities available. Although companies can use the concept of flexible budget but this concept has not been fully able to address to the dynamics environment that changing very quickly.

At this time the traditional budgeting process is still widely used by companies in Indonesia. The concept of traditional budgeting usually begins with a vision and mission statement. They are derived in the company's strategic plan provides direction the company's goals. Strategic plan is formulated based on an annual budget that comes from divisions or departments such as sales, operations and capital expenditures or investments. Overall budgeting will lead to the planning of income and cash flows for the year ahead. Such budgeting process cannot be directly agreed upon by the parties involved but require repeated negotiations between the business unit and headquarters or the company's top management. Once the budget is approved, the next process is regular reporting to control performance has been agreed (Hope and Fraser, 2003). Given the traditional budgeting have weaknesses that will hinder the process of making quick decisions especially under uncertainty conditions then the concept of beyond budgeting is introduced.

The concept of beyond budgeting is one of the business management models that try to capture and eliminate conflicts that could hamper the achievement of corporate goals such as, shareholder satisfaction, obtaining the best human resources, innovation, efficient operating management, customer satisfaction, effective corporate management and ethical financial reporting. The concept of beyond budgeting is more emphasis on the desire and opportunity to respond to consumer demand as a strategy for management



decision making. Managers are no longer responsible for the fulfillment of the budget that has been prepared and approved, but more responsible in taking actions or decisions that maximize value for customers and shareholders. This means that management has the flexibility to manage the budget as needed.

Moreover, traditional budgeting control is narrower such as it only compares actualization with the approved budget. This condition will narrow the space for the company's operations and will likely have an impact on efforts to reduce the gap by using unethical ways. In the implementation of the concept of beyond budgeting, controls are created in a multifaceted and multi-level in a cycle of information systems. Through this cycle, company is expected to supervise or control every level of the organization with a variety of problems encountered. Beyond budgeting is a concept that is able to provide change at any time and give freedom to each unit manager to manage the budget as needed.

This research explores and compares the process of financial planning and control applied in three Indonesian enterprises to those of beyond budgeting concept. The findings will be analyzed whether the companies has been able to apply the concept of beyond budgeting. It also be analyzed the benefits and constraints faced by companies in implementing beyond budgeting concept, especially in financial planning and control. The results are expected to inspire Indonesia company to search the possibility for switching or adjusting the financial planning and control with the beyond budgeting concept to improve the efficiency and effectiveness financial planning and control in the company.

One medium company and two large companies are selected as the case study for this research because the application of the beyond budgeting concept is generally involves large companies, but the complexity of the process of traditional budgeting actually would be more burdensome for companies perceived SMEs compared to multinational corporations. Furthermore, the application of the concept of beyond budgeting in SMEs is expected will provide great benefits for companies in improving the efficiency and effectiveness of the financial planning and control.

Based on the above problems, this study formulated two issues, namely:

1. How does the comparison of financial planning and control based on beyond budgeting concept and those of the budgeting concept applied in the companies?
2. What are the benefits and constraints when beyond budgeting concepts applied in the companies?



Benefits of the study:

The results of this study are expected to provide new insights of the possibility of using beyond budgeting concept for financial planning and controlling the budget. It also provides advice and input for the company to be able to do the budgeting process more efficient and effective especially for enterprises in Indonesia.

LITERATURE REVIEW

Pflaeging (2006) defines beyond budgeting as a leadership philosophy based on a series of alternative process guided by certain key principles. The aim of beyond budgeting concept is to help companies fully realize the company's goal to maintain the entire commitment with both internal and external parties. The company will demonstrate its strengths in the face of tense competition that require convinced strategies against various environment and customers changes. The purpose of the application of this concept is especially for enhancing the overall efficiency and effectiveness expected by the company.

The finance department is no longer regarded as a guard counter but it has seen as part of help line managers (line managers) to support operational decisions. Compared to what is done in the traditional budgeting system, beyond budgeting concept is expected not only simpler but also more likely to provide information for controlling and decision-making. This is because the information provided by beyond budgeting concept is more adaptive to changes in the environment.

The head of the company who look at the beyond budgeting concept in conjunction with decentralized accountability and performance outcomes, believes that the concept of beyond budgeting will encourage a significant competitive advantage. Through beyond budgeting concept, it will be created human resources on the front line (line manager) who has the ability, commitment, and efficient in managing and taking business decision. By utilizing the information system capable of providing the necessary information, the managers will be able to make decisions quickly and effectively, which can reduce costs, and generate innovative strategy. Prompt and satisfactory service to customers is expected to create loyal and profitable customers. On the other hand, adaptive budget will also give assurance to the manager to provide a more ethical financial reporting. Implement a more adaptive management process does not mean that the project manager should drift far from their comfort zone. Performance becomes line manager responsibility. It can be categorized as a radical action that requires strong leadership and crucial controls of the organization. Through this concept, it is also



expected to obtain greater benefits compared with traditional budget concept, because granting authority to line managers is a challenge and trust given by the top management. It will not just be ignored by the line manager.

Companies that have implemented beyond budgeting have made information system that view business conditions in the future, for example by using a rolling forecast and more open and transparent to the data (financial and non financial). The aim of rolling forecast is to get a realistic future picture that can be viewed by management (Lamoreaux, 2011). This is a major part in improving the management internal controls. If everyone gets the same information, opportunity for any party to change the numbers or data is lesser. They also do not have a reason to carry out various data manipulation because there is no relationship with the achievement of certain targets. It also puts the top management in a stronger position. When middle managers become more capable in preparing and interpreting rolling forecast, top management will be able to anticipate changes in performance more effectively.

The beyond budgeting principles offer a management model coherently. These principles assume that line managers are able to set their own performance. Senior executives provide a supporting role. They gave the challenge and train, but the decisions taken within the framework of decentralization provisions based on the principles, values, and boundaries that have been set. They all support the need for line managers and executive managers put as a supervisory body. Hope, et al. (2006) showed there was a tremendous impact for companies that apply the beyond budgeting concept. It makes the company more adaptive and flexible to changing business environment. Examples of companies that have implemented successful this concept such as Svenska Handelsbanken, a Bank in Sweden, ALDI, a discount retailer in Germany, UBS Wealth Management and Business Banking in Switzerland as well as various other companies from many different industries. The principles of beyond budgeting (Hope and Fraser, 2003: 32) are as follows:

1. Building a corporate management framework based on the apparent principles and boundaries.
2. Creating a high-performance climate based on the understandable accomplishment on every management level.
3. Giving a freedom to the line management team to make decisions that are consistent with the management principles and strategic objectives.
4. Placing the team responsibility to make decisions that create value.



5. Focusing the teams to target customers.
6. Supporting open and ethical information systems.

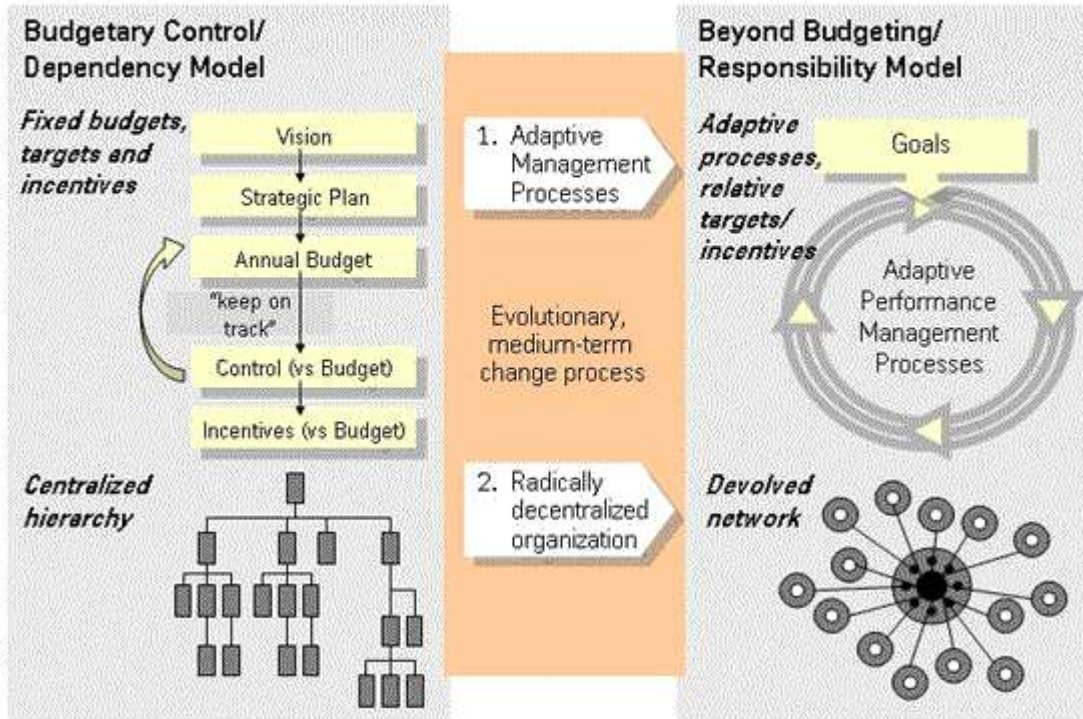
Hope and Fraser (2003) explain further that the conventional budgeting system affects the behavior of managers and employees in the ways that counterproductive to the company's strategic planning. Budgeting process binds managers and employees with the old management systems and paradigms. Budgeting system is often a barrier for change management. Many of the changes and effort that have been designed to shift from the culture of conformity with the budget cannot be done because of the strong conventional budgeting system.

If the new management model for the 21st century organization is focusing on strategic performance, value-added processes and knowledge management, it is very important that the corporate governance system should be established based on trust between managers, employees, customers and partners. However, this condition will be easily damaged when managers are faced with the difficulty of short-term planning so that they will be driven back to the sheer numbers-based management.

Compared with the traditional management model, beyond budgeting has two fundamental differences. First, the concept using in beyond budgeting is more adaptive in managing the company. Unlike traditional budgeting that relatively has fixed target and bind managers in conducting business, the target on the concept of beyond budgeting regularly referred to the performance of similar companies that have been categorized as a world-class company as a benchmark, or refer to an equal competitor. Second, the beyond budgeting model allows a more decentralized way of managing the company. The concept of traditional budgeting has a centralized leadership hierarchy, while the beyond budgeting concept allows performance accountability decisions left to middle managers who were given the opportunity to create a work environment and culture with full responsibility. This condition will improve motivation, increase productivity and better service to the consumer. Comparison the main concept of beyond budgeting and that of traditional budgeting can be described in Figure 1.

Based on the above figure, it seems that the application of beyond budgeting is primarily intended for large-scale enterprise in which the complexity of the business is so extensive where a strict and hierarchical control would impede innovation and creativity of line managers in capturing market opportunities. This condition will be exacerbated when the business environment is changing very rapidly. Static and fixed budgeting and control model becomes a barrier to growth.

Figure 1: Comparison between Traditional Budgeting and beyond budgeting Models
From the traditional “Budgetary Control Model” to the emerging management model “beyond the budget”.



Source: Pflaeging (2006)

It will be interesting to investigate further the application of the concept of beyond budgeting on small and medium enterprises when the complexity of business has not been so extensive that when later the company is growing, decentralization and performance has become part of the corporate culture. Bunce (2007) suggests that when the company was small and adaptive, it should become responsive and innovative one that have the courage to break away from rigid budgeting process and replace it with a rolling forecast (rolling budgeting) that adaptive to the changing environment.

RESEARCH METHODS

This study employs cases of three companies in Indonesia, two garment companies and one mining contractor. Through in-depth interviews and questionnaires, it is analyzed a comparative budgeting process applied in the company with the concept of beyond budgeting. Further analysis is related to the possibility of applying the concept of



beyond budgeting to the company, especially related to planning and control, benefits, constraints in the implementation beyond budgeting concepts to the company.

FINDINGS AND ANALYSIS

There are three different companies that become the cases in this study, namely PT Mondrian, a garment industry located in Klaten, PT Saptaindra Sejati, a mining contractor located in Jakarta, and PT Anugraha Wening Caranadwaya, a garment industry located in Jakarta. The first two industries can be categorized as large companies with 1.259 employees for PT Mondrian and 4.594 employees for PT Saptaindra Sejati. The third one, PT Anugraha Wening Caranadwaya can be categorized as medium company with 50 employees. All of these companies are labor intensive which manpower dominates the production process. Some points of analysis below are based on beyond budgeting concept proposed by Hope and Frazer (2003)

Table 1. Comparison between Beyond Budgeting Concept and Budgeting Concept Applied in the Company: Planning

Beyond Budgeting Concept	Budgeting Concept Applied in the Companies	Conclusion
Planning		
Planning is not a formal activity for frontline teams who always take the market signal to modify direction	<ol style="list-style-type: none">1. PT Saptaindra Sejati: Budgeting process is directed by top management, which is prepared by subordinate (each job site) that will be negotiated with top management2. PT Anugraha Wening Caranadwaya: Customers need is the basis in planning3. PT Mondrian: Budgeting purpose is adjusted to market conditions.	<ol style="list-style-type: none">1. Traditional budget planning2. Beyond budgeting3. Beyond budgeting
Frontline teams focus on maximizing customers and shareholders values.	<ol style="list-style-type: none">1. PT Saptaindra Sejati: Frontline teams responsible for maximizing customers and shareholders values but also responsible for keeping the budget planned2. PT Anugraha Wening Caranadwaya: Frontline teams focus on maximizing customers needs3. PT Mondrian: Frontline teams focus on maximizing customers	<ol style="list-style-type: none">1. Combination of traditional and beyond budgeting2. Beyond budgeting3. Beyond budgeting



<p>Setting financial targets based on key performance indicators (KPI)</p>	<ol style="list-style-type: none"> 1. PT Saptaindra Sejati: In setting financial and non-financial targets KPIs are created and began to be used in each Directorate. 2. PT Anugraha Wening Caranadwaya: No KPI, financial target is setting based on predetermined target 3. PT Mondrian: No KPI, financial target is setting based on predetermined target 	<ol style="list-style-type: none"> 1. Beyond budgeting 2. Traditional budgeting 3. Traditional budgeting
<p>Discussing strategy in a shorter time</p>	<ol style="list-style-type: none"> 1. PT Saptaindra Sejati: It took 1-2 months to create a strategy. 2. PT Anugraha Wening Caranadwaya: No strategy discussion 3. PT Mondrian: It took 1-2 months to create a strategy. 	<ol style="list-style-type: none"> 1. Traditional budgeting 2. Not applicable to this company because it has not have written strategy. 3. Traditional budgeting
<p>Frontline team responsible for the performance and strategy while executives responsible for developing strategies and setting the strategy of long-term and medium-term targets.</p>	<ol style="list-style-type: none"> 1. PT Saptaindra Sejati: Long-term Strategies and intermediate targets set in the SIS group executive head office Jakarta 2. PT Anugraha Wening Caranadwaya: no strategy discussion 3. PT Mondrian: There is no detailed information related with formulation and implementation strategy 	<ol style="list-style-type: none"> 1. Beyond budgeting 2. NA 3. NA
<p>Policy in the strategy depends on the system or methodology applied in the company such as balanced scorecard, EVA</p>	<ol style="list-style-type: none"> 1. PT Saptaindra Sejati: Policy strategy process has been using a new methodology that is balanced scorecard, although the concept of the balanced scorecard is not in the corporate level but in the directorate level 2. PT Anugraha Wening Caranadwaya: No modern management tools, just comparing planned budget and realization 3. PT Mondrian: No modern management tools, just comparing planned budget and realization. 	<ol style="list-style-type: none"> 1. Beyond budgeting 2. Traditional budgeting 3. Traditional budgeting
<p>Managers performance in executing the budget is measured by relative indicators, internal and external benchmarks</p>	<ol style="list-style-type: none"> 1. PT Saptaindra Sejati: It has been used range indicator, internal and external benchmarks in assessing the results of the previous year performance, but the performance evaluation is still very focused on financial achievement. 2. PT Anugraha Wening Caranadwaya: Manager performance is evaluate my top management 	<ol style="list-style-type: none"> 1. Combination of beyond budgeting and traditional one 2. Traditional budgeting 3. Traditional budgeting



	3. PT Mondrian: comparing planning and realization	
Budget holders optimistic on the profit improvement.	<ol style="list-style-type: none"> 1. PT Saptaindra Sejati: Division in the company still adheres to play it safe. 2. PT Anugraha Wening Caranadwaya: budget holders work as they planned 3. PT Mondrian: predetermined budget influenced performance 	<ol style="list-style-type: none"> 1. Traditional budgeting 2. Traditional budgeting 3. Traditional budgeting
Making resources available and accessible to the front-line team when they are needed through a quick approval and easier access to operational resources	<ol style="list-style-type: none"> 1. PT Saptaindra Sejati: Allocate resources based on a contract that has been negotiated with the number of cost center needed to support it. But can be accessed by front line teams when it is needed through the quick and easy approval. 2. PT Anugraha Wening Caranadwaya: resources centralized on the top management (owner) 3. PT Mondrian: resources easily access by every unit through a quick approval. 	<ol style="list-style-type: none"> 1. Combination of beyond budgeting and traditional one 2. Traditional budgeting 3. Beyond budgeting

Table 2. Comparison between Beyond Budgeting Concept and Budgeting Concept Applied in the Company: Controlling

Beyond Budgeting Concept	Budgeting Concept Applied in the Companies	Conclusion
Controlling		
Control is multilevel	<ol style="list-style-type: none"> 1. PT Saptaindra Sejati: An evaluation of the use of budgets by department budget and cost control section head 2. PT Anugraha Wening Caranadwaya: control is multi level based on unit budget 3. PT Mondrian: control is multilevel 	<ol style="list-style-type: none"> 1. Beyond budgeting 2. Traditional budgeting 3. Beyond budgeting
More focus on trends and rolling forecasts	<ol style="list-style-type: none"> 1. PT Saptaindra Sejati: It evaluated by looking at the last year situation and look at the forecasts and trends for the future 2. PT Anugraha Wening Caranadwaya: the role of owners is very strong 3. PT Mondrian: customers needs is the focus of production 	<ol style="list-style-type: none"> 1. Combination of beyond budgeting and traditional one 2. Traditional budgeting 3. Beyond budgeting
Executives monitor budget performance and interfere only when the indicator or trend over the limit.	<ol style="list-style-type: none"> 1. PT Saptaindra Sejati: Bbudgets are monitored daily 2. PT Anugraha Wening Caranadwaya: budget are monitor regularly 3. PT Mondrian: every unit has its own responsibility and top management will taking an action if indicator is beyond the budget 	<ol style="list-style-type: none"> 1. Traditional budgeting 2. Traditional budgeting 3. Beyond budgeting



Control performance conducted when the performance does not match previous budget.	<ol style="list-style-type: none">1. PT Saptaindra Sejati: Controlling performance on a predetermined fixed budget2. PT Anugraha Wening Caranadwaya: control performance is based on predetermined budget3. PT Mondrian: budget is based on customers' needs and can be revised by middle management	<ol style="list-style-type: none">1. Traditional budgeting2. Traditional budgeting3. Beyond budgeting
Information is open and transparent	<ol style="list-style-type: none">1. PT Saptaindra Sejati: Budget information on PT SIS is open and transparent2. PT Anugraha Wening Caranadwaya: Information is relatively limited3. PT Mondrian: information can be accessed easily	<ol style="list-style-type: none">1. Beyond Budgeting2. Traditional budgeting3. Beyond budgeting
Deviations are reviewed in case of major deviations. If only a small deviation, it will rely on lower level unit.	<ol style="list-style-type: none">1. PT Saptaindra Sejati: Irregularities in the company's budget will be review and find the solution.2. PT Anugraha Wening Caranadwaya: deviation is review regularly3. PT Mondrian: executives will take an action when deviation is beyond the limit	<ol style="list-style-type: none">1. Traditional budgeting2. Traditional budgeting3. Beyond budgeting
Revisions made if really necessary.	<ol style="list-style-type: none">1. PT Saptaindra Sejati: Revised budget is conducted quarterly2. PT Anugraha Wening Caranadwaya: Budget is rigid3. PT Mondrian: revision based on customers' needs	<ol style="list-style-type: none">1. Traditional budgeting2. Traditional budgeting3. Beyond budgeting

Based on the summary of planning and control processes from three companies depicted in Table 1 and Table 2, I conclude that in general, the companies are more likely used combination between beyond budgeting concept and traditional budgeting concept. Although customers' needs have an important role in the planning process however after creating regular budget, it is not easy for management to change easily the predetermined number.

Several important findings are corporate budgeting in these companies are relatively adaptive to changes in the environment because they can adjust the production process based on the customers' needs. They will add some new resources in fulfilling a new demand. Two companies are using rolling forecast based on customers' needs obtained by marketing people. Controlling is conducted in multi level process control. Different level management has different control authority. Surprisingly, all of the companies has relatively transparency in financial information and companies' resources are accessible to all departments through an easy and fast approval.



There is no special inclination as to what kind of companies that preferred to apply the concept of beyond budgeting compared with companies that are more likely to choose traditional budget concepts. It seems that the role of the top management is very dominant in this decision. For example, PT Mondrian where the owner is also the top executives in the company has a very dominant and important role in every decision making process. When the top management believes that decentralization to the middle management can run smoothly, he will empower them in conducting their business. Deep interviews with the managers of these companies revealed that top management felt that not all middle managers have adequate ability to dare and be able to make crucial decisions especially under uncertainty. The quality of human resources seems to be an important key in the implementation of the concept of beyond budgeting in the company. As we all know, that in the concept of beyond budgeting, the line manager's role is very important. They were given full authority to take action to seize market opportunities. Under conditions of uncertainty, managers are expected to have the foresight in the process of making the right decision.

It is not easy for top management to delegate most of its authority to line managers. Some companies that are successful implementing the concept of beyond budgeting generally have the adequate quality of human resources. Unlike the cases I have observed in this study, a tendency for close monitoring of the plan agreed upon still dominate. Budget preparation and control process that takes time, effort and money had still felt better to do than choosing the concept of beyond budgeting process. It seems that companies in this study are not ready and have not been able to implement it. In addition to human resources issues, another problem encountered is the constraint of using internal and external benchmarking as an indicator of managers' performance. The results from interview indicate that it is not easy for the companies for using modern management tools to evaluate the manager performance such as balance score card, Economic Value Added (EVA), or use external benchmark information that is not easily available. However, these companies have generally been using a team-based performance evaluation and comparison among employees.

CONCLUSION AND FURTHER RESEARCH

Based on this study it can be concluded that the three companies surveyed are use a combination of the traditional concept of the budgeting process and beyond budgeting concepts. An interesting finding was the companies' response to the changes in consumer demand. This means that the company has been implementing rolling forecasts. Besides the positive things found in this study, several obstacles still faced by



the companies in implementing beyond budgeting concepts that are expected to improve the efficiency and effectiveness of decision making. The main constraint is the quality of human resources that are not suitable to be given a decision-making authority in many crucial conditions. Furthermore, the companies are also not implementing modern management tools as well as internal and external benchmarking in assessing managers' performance.

Further studies are expected to explore other companies in Indonesia which may be able to apply the concept of beyond budgeting in order to improve the quality of decision-making that is not oriented only internally but also using external benchmarking for improving their performance.

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