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Strategic Based Budgeting, is it Necessary?

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ABSTRACT : *Companies need strategy to survive in a competitive environment, however, it is not easy to formulate and implement good strategy. It takes long difficult process and most of the time, it is costly. The aim of this research is to provide analysis on how budget become one of obstacle in strategy implementation. This research uses qualitative descriptive and choose a case study design to get a deeper understanding. The result shows that it is not enough for company to plan only strategic expenditure but It is also crucial for company to plan strategic income, so that company can weigh the cost and benefit of implementing a new strategy.*

KEYWORDS – *Budget, Revenue Planning, Strategic Expenditure, Strategy Implementaton, Strategy Planning*

I. INTRODUCTION

Most companies are aware with benefits of having a good strategy. However, the strategy is useless without implementation. Well-executed strategy will lead company to reach its goals, while poor executed strategy is just a burden for the company. Some managers treat strategic planning as a ritual. They undergo the process not necessarily because they think they need it, but because the system ask them to do it hence strategy loss it function.

Usually big companies spend fantastic number in strategic planning phase. According to David (2011) sometimes planning can be expensive, however when it is well executed, the benefit will exceed the cost. Companies aware that they need budget to execute strategies. Kaplan & Norton (2006) argues that 60% of companies failed to align their strategy with their budget. Formulated strategies cannot be executed due to budget limitation because most companies focus on operating budget and omit strategic. When it happened in a long term, companies may have difficulties in reaching their goals.

The idea of linking strategy and planning to budget is coming from Kaplan and Norton. They are realize that the time frame between strategy and planning are different to budget however it is important to ensure that short term realities is align with long term planning. One way to linking strategy and planning to budget is by adding a new class of expenditure that is separate between capital expense and operational expense, which called strategic expenditure (Norton, 2006). Since this idea is relatively new, it is not easy to find companies that use strategic expenditure in Indonesia. Thus there is an urge to see this concept in practice.

Our study contribute to the practice by giving evidence on how budget influence strategy implementation process. This study uses qualitative descriptive approach as it is considered able to give deeper understanding. The result finds that budget affect strategy implementation. In addition, to ensure strategy implementation succeed, companies should pay attention not only to the strategic expenditure but also to strategic revenue.

II. LITERATURE REVIEW

According to Kahar, Rohman, & Chariri (2016) budget helps management to allocate limited resources owned by the organization so that it can achieve its goals. Budget also provide detail planning, starting from procurement process until the utilization of resources in a certain period (Garrison and Noreen, 2000). In traditional management control system, budget has been known as a control tool, however over the last few years, it has been criticized by user and researcher for no longer being able to meet companies' expectation (Germain, Gates and Nantes, 2011). Research conduct by Kaplan (1987) said that traditional budget is no longer appropriate due to changes in technology and business environment. Therefore in 2006, Norton introduce new concept called strategic based budgeting to overcome the traditional budget limitation.

Kaplan & Norton (2006) disclose that a successful strategy of planning and budgeting system are shaped by the need for cross business integration and the linkage of a long-term process and a short-term process. In practice, these two processes reflect by strategy and budgeting. It is true that strategy and budgeting are distinct but these two activities are intertwined. Strategic planning is focus on the future while budget is a conservative process, oriented toward the present and past (Kaplan and Norton, 2008). If managers can manage strategy and budget properly, it will improve the organization performance (Blumentritt, 2006).

According to Poister (2010), strategy needs plan that consist of concepts, processes and tools so that in the long run it will helps organization to achieve its goal. However, a good planning is nothing without implementation. A company needs money to implement its strategy although in many cases, budget have little connection with business or operational strategies, thus it become one of burden for company to implement its strategy (Blumentritt, 2006).

Budgeting and strategy are formulated based on forecasting conditions. It is common to reallocate some budget to the other activities because of the changing in business environment thus budget and strategy must be flexible (Blumentritt, 2006).

III. METHODOLOGY

This research uses qualitative descriptive and choose a case study design to get a deeper understanding regarding phenomenon so that in the end we can reach conclusion by giving theory. There are two types of case study design, multiple and single (Yin, 2014). For this particular research, we use single case design due to the nature of budget.

In conducting this research we use primary and secondary data. The primary data is obtained from interview with planning manager and staff, while the secondary data is obtained from company's budget and annual report. Semi structured interview has been chosen as a method to get important information. Our judgment said that it is important to interview with staff and supervisor level from budget and planning department because these people are the one who know really well.

Our sample is one of company owned by Indonesian government. The reason we choose this type of company is because all of the company owned by the government is obliged to submit their short and long term planning document. The short work plan and budget document is called RKAP (Company's budget plan) while the strategy document is called RJPP (Company's long term plan). Due to data restriction, we cannot reveal the name of this company.

IV. RESULT AND DISCUSSION

a. Preliminary Analysis

Preliminary analysis has been conducted to get big picture of the company. Based on company's annual report, it is clear that during 2012 to 2016, company cannot meet targeted profit. It even experience significant loss in 2013. Figure 1 below compare the targeted profit and its realization.

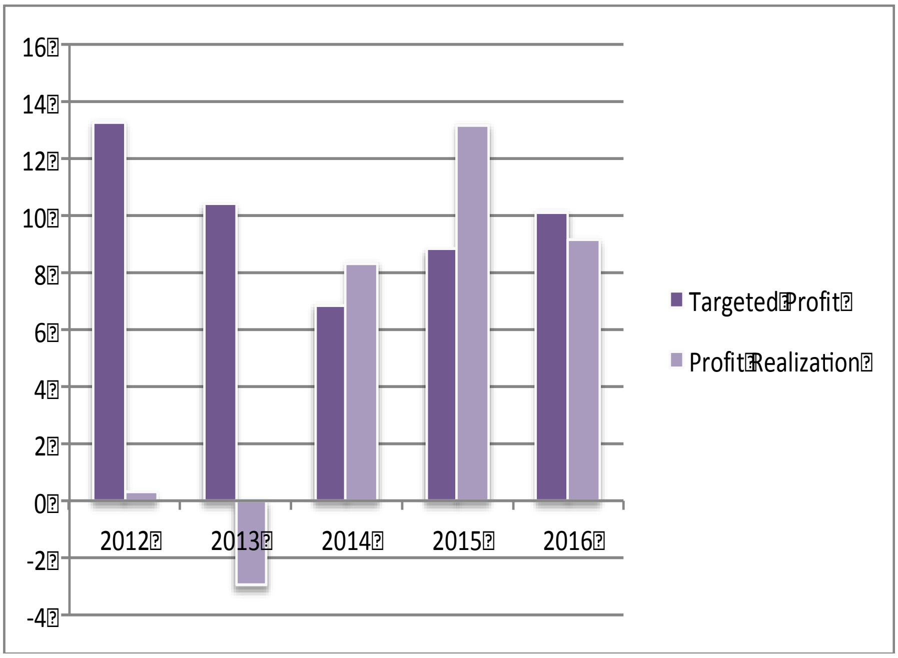

Figure 1: Targeted Profit VS Profit Realization Graph

Other than profit, we also analyze the company's revenue. Similar with profit profile, company is able to achieve targeted revenue only in 2014. Figure 3 below compare the targeted revenue and its realization.

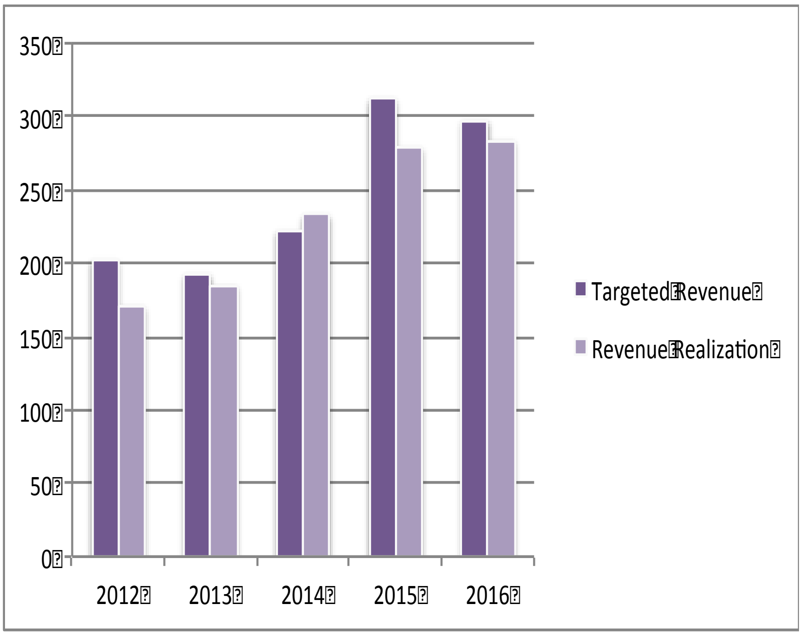

Figure 3: Targeted Revenue VS Revenue Realization graph

There are two types of revenue from this company, which are revenue from Public Service Obligation (PSO) and daily operation. Both of this revenue type cannot achieve targeted revenue.

b. Budget as a Resource in Executing Strategy

Based on the preliminary analysis, it can be seen that company does not perform well. However it is too early to conclude that this poor performance caused by budget limitation.

We review RKAP and RJPP in 2012-2016 as a second step in this analysis. We find that there are two strategies that failed to be implemented. On the other hand there are several strategies that implemented during 2012 to 2016, even though it is not stated in RJPP. From the interview with a supervisor in planning department, we find that these strategies implemented as a response to the changing business environment. Company need to implement the strategies to survive from new competitor.

The interview also reveal information that budget limitation is not the caused of strategy inhibition. Budget limitation is an impact of poor budgeting process hence the strategy inhibition in functional level is a sign of obstacle in executing strategy. On the other hand, based on the company's annual report from 2012-2016, this company failed to achieve revenue target in 2012, 2013, 2015 and 2016. We confirm this finding through interview with planning manager and it is known that problem in executing strategy execution is occur not only because of the budget limitation, but also failure in achieving targeted revenue.

When the budget management focused to expenditure, it will be easy for management to create silo thinking. For example, management only focus in efficiency and ignoring other elements that contributes in achieving strategy. Nevertheless, there is no result without expenditure. Management may prioritize some elements but it is also important to consider other elements that support company's goals in a long run.

Strategic Expenditure account that created by Kaplan and Norton in 2008, only focus on expenditure separation. They do not suggest the importance of target revenue resulting from strategy implementation. Meanwhile, in practice management has a strong interest in making money. Thus, in the process, management should choose between operational and strategic expenditures by considering the impact of the expenditure to revenue.

To link operational and strategic expenditure to the revenue, this company needs an alert system. This system will enable management to connect budget priority and revenue impact. By doing so, the company will get direct information about revenue impact for every expenditures.

To execute it, as Kaplan and Norton suggest strategic expenditure account, the company also needs a separation in revenue budget. Revenue coming from operational has to be separated with revenue that coming from strategic implementation. This separation needs to be done from strategic planning phase, so that it can be reflected in budget process.

As a result, management can see the connection between revenue and expenditure for both operational and strategic starting from budget preparation phase. This mechanism will create an early alert system for the management and help them in decision-making process. This form below can be used to make the decision making is easier.

Perspectiive	Stategic Objective	KPI	Target	Action Plan	Budget	Revenue	Strategic / Operational
Financial							
Customer							
Internal Business Process							
Learning & Growth							

Table 1: Revenue Expenditure Form

Align with Kaplan and Norton finding, we find that it is important to differentiate between strategic expenditure and operational expense. This categorization enables company to control strategy implementation. Other than that we also find that other than strategic expenditure it is also important to consider strategic revenue. Therefore company can get a big picture by comparing revenue and expenditure. By doing so, company can transform the strategy into monetary form.

V. CONCLUSION

Based on our analysis we believe that it is not enough for the company to plan only strategic expenditure. It is also crucial for company to plan strategic income, so that company can weigh the cost and benefit of implementing a new strategy. We suggest management to implement this early alert system in the company, so that it can help management to create better decision. However the effectiveness of this method is not proven yet. We suggest to other researcher to expand the idea of strategic expenditures and revenue.

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