

# The Budgeting Practice in East Java MSMEs

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**Abstract.** Micro, Small and Medium Enterprises (MSMEs) are the backbone for the economy of East Java. The MSME population in East Java is 9.59 million with a contribution to the East Java GRDP of 54.98 percent. The development of MSMEs is inseparable from budgeting system. Budgeting is a planning and profit control tool for MSMEs. A good budgeting system can make the business have long-term sustainability. This research discusses the budgeting practice carried out by MSMEs in East Java. This is qualitative research with a case study approach that used interview, observation and documentation study. The results show that the implementation of budgeting in MSMEs in East Java carried out with the traditional system. The budgeting only used to record cash flow. Based on the result, it can be concluded that MSMEs have not fully maximized the budgeting function as a tool for planning and profit control.

**Keywords:** MSMEs · Budgeting · Planning · Control · Sustainability

## 1 Introduction

The movement of the MSME sector (Micro, Small and Medium Enterprises) is vital to create economic growth and employment. MSME is a type of business unit that is flexible enough so that it can easily adapt to the tides and direction of market demand. MSMEs have advantages in terms of utilizing natural resources and labor-intensive; such as food crops, plantations, animal husbandry, fisheries, trade, and restaurants. The performance of MSMEs does not depend on imported materials thereby strengthening national development (Solikatun and Masruroh, 2018). MSMEs are able to provide goods and services for low to moderate purchasing power consumers and make a significant contribution to the country's foreign exchange. Microbusiness is one of the main components of local economic development and is able to empower the weak economy. The MSME sector has a strategic role both economic, social and political.

Economic growth in East Java Indonesia cannot be separated from the role of MSMEs. 54.98% of East Java's GRDP (Gross Regional Domestic Product) was obtained from the MSME sector. Based on the BPS census in 2012, it is known that the number of MSMEs in East Java reached 9.59 million businesses. The average development of UMKM in East Java is 54.34% per year and accommodates 98% of the workforce. MSMEs have a role in economic growth, reducing unemployment, poverty and foreign exchange earnings (Republika, 2014). When classified by sector, it shows that the agricultural sector occupies the top position of the total number of MSMEs in the amount of 4,112,443 MSMEs, followed by the trade, hotels and restaurants sector

at 1,720,042 MSMEs and the service sector at 411,342 MSMEs. In terms of employment, the sectors that absorb the most labor are agriculture, trade, hotels and restaurants and the manufacturing industry (Renstra Dinas Koperasi dan UMKM Provinsi Jatim 2019).

The sustainability of the MSME sector is very important to be maintained because it is a vital sector that provides many benefits. The success of a company or UMKM in realizing its goals both short and long term is inseparable from the role of management in carrying out its functions. One of the functions of management is planning and control which can be realized through the budgeting system. The preparation of the budget plan is the process of preparing financial projections and costs that may arise due to functional processes in the fields of production, marketing, financial administration, and other related fields to achieve company goals. The preparation of a budget plan can avoid wasteful and unnecessary payments, streamlining the use of resources such as labor, equipment, and funds. The financial budgeting system generally consists of a sales budget, a production budget, a raw material budget, a labor budget, a factory overhead cost budget, a variable budget, a capital expenditure budget, a receivable budget, and a cash budget. In this case, the budget can be a tool for MSMEs for better management of entities.

The budgeting system proved to be very important for the sustainability of MSMEs. This is consistent with what is expressed by Tanzil (2017) that planning is the starting point for developing businesses, failing in planning means failing in everything. Based on this, this study intends to describe the budgeting system used by MSMEs, especially in East Java Province. The basis of this research is the importance of the sustainability of the MSME sector for the Indonesian economy.

## 2 MSMEs and Budgeting

Undang-Undang No. 20 Tahun 2008 states that MSMEs (Micro and Small and Medium Enterprises) are productive business opportunities owned by individuals or individual business entities that meet the criteria for micro-business as stipulated by law. Small business is a productive economic business opportunity that stands alone, which is carried out by individuals or business entities that are not subsidiaries or branches of the company. Mastered, or become a part either directly or indirectly from medium or large businesses that meet the criteria of small businesses as referred to in the law.

The development and sustainability of MSME cannot be separated from the management system of management. One form of the management system is the financial management system. Financial management in terms of control and planning can be realized through the budget. Understanding the budget is a collection of statements about estimates of revenues and expenditures that are expected to occur in one year or several periods to come. The Governmental Accounting Standards Board (GASB) defines the budget as a financial operating plan, which includes estimates of proposed expenditures, and sources of income expected to finance it within a certain time period. The function of the budget, is; (a) is the final result of the work plan preparation process; (b) is an activity blueprint that will be implemented in the future; (c) as an internal communication tool that connects

various work units and work mechanisms between superiors and subordinates; (d) as a means of controlling work units; (e) as a motivational and persuasive tool for effective and efficient action in achieving the organization's vision; and (f) is a political instrument.

Characteristics of the budget, are; (a) stated in financial units and non-financial units; (b) generally covers a certain period of time, one or several years; (c) contains the commitment or ability of management to achieve the goals set; (d) the budget proposal is reviewed and approved by the authorities higher than the budget; and (e) once prepared, the budget can only be changed under certain conditions. Budget preparation requirements, among others; (a) realistically, the budget is expected to be achieved in accordance with the current situation, neither too optimistic nor too pessimistic; (b) flexible, not rigid and likely to adapt to changing circumstances; (c) continuous, requires continuous attention; (d) participatory, requiring participation from the whole company to achieve the company's goals that have been reflected in the budget; (e) educative, can educate employees and management to work in accordance with their commitments; (f) communicative, the budget is used as a communication tool between departments; (g) integrative, the budget must be able to unite the implementation of all the activities in a budget report; and (h) coordinative, can coordinate all departmental activities to achieve company goals.

Based on the explanation of MSMEs and the budget outlined above, it can be concluded that in managing a business an appropriate budgeting system is needed. With a variety of inherent functions, the budget can be an effective planning and control tool for MSMEs

### 3 Methods

This type of research is a case study research conducted in the MSMEs in East Java. The rationality of the object of research is that MSMEs in East Java are MSMEs that have successfully developed their businesses so that they become one of the biggest contributors to GRDP for the Province of East Java. Data collection is done through interviews, observation and documentation studies. Interviews were conducted with MSMEs owners and employees. Furthermore, observations are made by observing the business processes that occur in the MSMEs. Another method is through documentation studies related to the implementation of budgeting in East Java MSMEs. Data analysis in this study was carried out together with other parts of research development, namely data collection and writing findings. Research data analysis is done by "separating" the data, which is a process that focuses on some data and ignores other parts (Guest, MacQueen, & Namey in Creswell, 2016). Data analysis activities in this study, namely data reduction, data presentation, conclusion and verification of data. This study, using source triangulation techniques and method triangulation, to carry out validity tests on the results of the study. In addition, researchers will also conduct member checks to reduce the bias that might occur.

## 4 Analysis and Discussion

### 4.1 Analysis

Based on the results of interviews that have been carried out at MSMEs in East Java Province, it can be concluded that there are several things as follows,

- a. MSMEs owners in Blitar City, East Java already know the definition of budgeting in general and know the benefits of budgeting, but have not implemented budgeting comprehensively. MSMEs in Blitar City require the type of sales budget, raw materials, labor and production budget.
- b. The MSMEs of the City of Ponorogo has implemented simple budgeting and felt the benefits of budgeting as a management tool. The budget that has been made is a cash budget to record cash flow. In the future, MSME owners want to learn how to make a comprehensive budget, especially the sales and production budget.
- c. Malang City's SMEs, using the budget, especially in the production process. The budget is used as a means to maintain the sustainability of the company. MSMEs in Malang mainly need sales budgets, raw material budgets, and more detailed production budgets.
- d. The MSMEs of Tulungagung City, have not used the budget in managing the organization. MSME owners do not fully understand the benefits of budgeting and only rely on memory for company management.
- e. Surabaya MSMEs have understood the meaning and benefits of budgeting. In addition, there has been training and provision of material from the Surabaya city government. The owner of UMKM has made a budget but it has not been detailed and only looks at annual trends.
- f. MSMEs City of Jember has implemented simple budgeting on the management of its business. This was driven by the training and provision of material by the City Government of Jember. Budgeting is mainly done to see cash flow and plans for using cash in the next period. In the future, MSMEs in the City of Jember want to create a more detailed sales budget and raw materials.

### 4.2 Discussion

The budgeting system is one way for SMEs to realize efficient and effective organizational management. Budgeting can estimate how the planned utilization of resources will be carried out by the company in one period. The budget can also show how a resource is managed by the organization. The budget becomes an effective evaluation tool so that in the future the company can design a better management system than before. Based on the results of interviews conducted at MSMEs in East Java, it can be seen that MSMEs in East Java on average have not yet implemented comprehensive budgeting. Organizational management is carried out manually and traditionally based on the owner's memories, simple records, and annual trends. This happens because there are still limited human resources (HR) who understand well the

preparation of the budget. On the other hand, there are habits inherent in the management of MSMEs. The owner feels that the simple management of UMKM has been able to survive. This certainly becomes very worrying, especially in the current era of disruption. MSMEs that do not want to adopt in the long run can be eroded so that they are at risk of bankruptcy. With an increasingly high level of business competition, it is important for MSMEs to have an adequate management system so that businesses can be run in the most efficient and effective way.

## **5 Conclusion and Suggestion**

### **5.1 Conclusion**

The results show that the implementation of budgeting in MSMEs in East Java carried out with the traditional system. The budgeting only used to record cash flow. Budgets are made only based on the owner's memory, simple records, and annual trends. This happens because of the still limited HR (Human Resources) and there are habitual factors inherent in budget management. Based on the result, it can be concluded that MSMEs have not fully maximized the budgeting function as a tool for planning and profit control.

### **5.2 Suggestion**

In order to encourage an adequate management climate for MSMEs, a comprehensive budgeting system is needed. This budgeting system must be adapted to the needs of MSMEs. The budgeting system can be outlined in a module in the future which can be further developed into an application or software to facilitate UMKM in its utilization. The role of government is crucial for the realization of the budgeting climate for MSMEs.

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