
PRACTICES FOR LONG-TERM
BUSINESS SUCCESS TO INTEGRATE
MANAGEMENT CONTROL AND
SUSTAINABILITY:
CONTROL SYSTEMS, PERFORMANCE
IMPROVEMENT, GOVERNANCE,
COST MANAGEMENT, AND
SUSTAINABILITY IN THE
CORPORATE WORLD

Editor

Mr. Lawrence Walambuka



Practices for Long-Term Business Success to Integrate Management Control and Sustainability: Control Systems, Performance Improvement, Governance, Cost Management, and Sustainability in the Corporate World



Editor

Mr. Lawrence WALAMBUKA

Published by: NCM Publishing House

Publishing Date: 18.12.2024

ISBN: 978-625-95075-5-2

Copyright © The publishing rights of this book belong to **NCM Publishing**. The legal responsibility of the chapters belongs to the authors themselves. Except for the quotations to be made in accordance with the academic ethical rules and the short quotations to be made for promotional purposes, all or part of it cannot be printed, published, copied, reproduced or distributed electronically, mechanically or in part without the written permission. The authors are responsible for the content of the papers(chapters).

Practices for Long-Term Business Success to Integrate Management Control and Sustainability: Control Systems, Performance Improvement, Governance, Cost Management, and Sustainability in the Corporate World

Publication No: **26**

Editors | *Mr. Lawrence Walambuka*

Cover Designer | *Sabire Tuğçe KARADAL*

ISBN | [978-625-95075-5-2](#)

Publisher Certificate No | **51898**

Publisher Type | International Publishing House

Release Date | 2024



CONTACT

Phone: +90 505 965 4613

e-mail: ceocongress.info@gmail.com

www.ceocongress.org

LIBRARY INFORMATION CARD

Walambuka, Lawrence; Editor, 13, 2024. **Practices for Long-Term Business Success to Integrate Management Control and Sustainability: Control Systems, Performance Improvement, Governance, Cost Management, and Sustainability in the Corporate World.** NCM Publishing House, Bursa. Language: English
Editor: Mr. Lawrence Walambuka
ISBN: [978-625-95075-5-2](#)

PREFACE

In today's increasingly complex and competitive business landscape, organizations are required to adopt robust systems and frameworks that enable them to maintain efficiency, control, and performance. The collection of articles presented in this volume addresses various dimensions of **Management Control Systems (MCS)**, exploring their implementation, challenges, and impact across diverse organizational contexts, particularly within Indonesian companies. Each contribution delves into different facets of MCS, offering valuable insights into how organizations utilize control mechanisms to achieve strategic objectives, improve performance, and manage risks.

The first set of articles provides an in-depth exploration of **cost control** systems. From the implementation of **target costing** as a production cost control system to the analysis of **operating cost budgets** as a means of enhancing operational efficiency, these papers underscore the critical role of cost management in maintaining competitiveness. These studies are particularly timely as companies navigate global economic challenges and seek sustainable financial practices.

Another significant theme within this volume is the application of **interactive control systems** and **management control strategies** to address organizational challenges. The articles examine the levers of control, focusing on how companies like PT. Kalbe Farma employ models like the **Levers of Control** framework to fine-tune their strategies and operational processes. Similarly, the exploration of **employee performance control** illustrates how MCS can be used not only for operational control but also as a means of shaping organizational culture and ensuring alignment with broader corporate goals.

A notable aspect of this book is its exploration of the intersection between **management control systems** and **governance**. Several articles explore the role of **governance, risk, and compliance (GRC)** frameworks in enhancing company performance. These studies are critical, especially as organizations face an ever-growing regulatory environment and the need for transparent, accountable practices.

The final set of articles addresses the use of **budgeting** and **result control systems** in both private and public sectors. These contributions illustrate how systematic control measures are integral not only to corporate governance but also to **governmental management**. The detailed analysis of the **budgeting process** in Indonesian governmental institutions highlights the challenges and opportunities of designing and evaluating MCS in the public sector.

In addition, the book highlights the importance of sustainability reporting, particularly with respect to the **GRI standards** in the construction sector. As organizations face increasing pressure to align their operations with sustainability goals, this work contributes valuable insights into how MCS can support sustainable development and corporate responsibility.

Through these diverse perspectives, the contributors to this volume offer a comprehensive examination of management control systems in the modern world, underscoring their role in driving organizational success and resilience. The integration of theory and practical application makes this collection an essential read for researchers, practitioners, and policymakers interested in the dynamic and evolving field of management control.

Prof. Dr. Iskandar Muda
Mr. Lawrence Walambuka
Bursa
December 2024

CONTENTS

PREFACE		ii
Chapter 1	Implementation of Target Costing as a Production Cost Control System in Companies Finka, Yolanda, Iskandar Muda, Alexandru-Mircea Nedelea	5
Chapter 2	Analysis of the Implementation of Management Control Systems Using the Levers of Control Model at PT. Kalbe Farma Mellinda Sri Wardani, Adinda Lestari Siregar, Iskandar Muda, Alexandru-Mircea Nedelea	13
Chapter 3	Analysis of the Implementation of the Operating Cost Budget as a Cost Control System on Operational Cost Efficiency in The Company Dian Andriani, Hendra Mulnandar, Iskandar Muda, Alexandru-Mircea Nedelea	21
Chapter 4	Implementation of an Interactive Control System as a Management Control Strategy in Solving Problems in Companies Iskandar Muda, Situmorang, Liliyani Dwi Larasati Lubis, Iskandar Muda, Alexandru-Mircea Nedelea	29
Chapter 5	Implementation of the Management Control System Function as a Tightness Control System for Employee Performance Wibisono, Saptia Lestari, Iskandar Muda, Alexandru-Mircea Nedelea	38
Chapter 6	Implementation of Budgeting as Designing and Evaluating Management Control Systems in Government in Indonesia Chandra Wijaya Nasution, M. Amry Rayendra Nst, Iskandar Muda, Alexandru-Mircea Nedelea	46
Chapter 7	Implementation of Result Control and Action Control to Improve Company Performance Selvy De Balqis, T. Khairunnisa, Iskandar Muda, Alexandru-Mircea Nedelea	55
Chapter 8	Implementation of a Management Control System in the Form of Governance, Risk and Compliance (GCR) on Company Performance Citra Utami, Anastya Dwi Isti Astari, Iskandar Muda, Alexandru-Mircea Nedelea	62

Chapter 9	Implementation of Gri Standards as a Guideline for Preparation Sustainability Report 2023 for Construction Sector Companies on the Indonesian Stock Exchange	73
	Suci Normala, Katherine Helen Aurora, Putri Ayu Lestari, Iskandar Muda	
<i>NCM Publishing House Certificate</i>		86
Editor's Resume		87

CHAPTER 1

Implementation of Target Costing as a Production Cost Control System in Companies

Finka¹, Yolanda², Iskandar Muda³

^{1,2,3}Universitas Sumatera Utara, Medan, Indonesia

¹Email: mfinkaazzahrautami@gmail.com

Alexandru-Mircea Nedelea⁴

⁴ Coordinator Club of Asian Studies, Faculty of Economics and Public Administration,
Stefan cel Mare University of Suceava, Romania

Email: alnedelea@yahoo.com

ABSTRACT

This article aims to discuss and analyze the application of target costing as a production cost control system in companies. The researcher conducted a theoretical study and a review of previous literature. This research will also examine previous research which provides an overview of the implementation of target costing and its impact on the company. This research uses a qualitative descriptive approach by conducting theoretical studies and literature reviews by conducting literature studies and collecting journals via websites and the internet. The research methodology used is purely through analysis of existing literature and theoretical studies related to the topics discussed in the research to obtain good theoretical research results related to the themes discussed in the research. Through the results of theoretical studies and literature reviews, results were found with the conclusion that target costing is considered effective in reducing or increasing product costs by evaluating product value alternatively (value planning) to maintain customer satisfaction. By restructuring existing costs, companies can achieve maximum profit from the selling price per unit of their product, while saving costs before the product is finished. This study shows that target costing is a viable alternative that provides positive results in maximizing company profits by reducing production costs during the product manufacturing process. The target costing method is successful in reducing company costs by using value engineering analysis or product value engineering at the design stage. The design stage is very important because most of the product costs are determined and anticipated at this stage. The target costing method is used to reduce production costs in order to obtain profits in accordance with the company's desired profit targets.

Keywords: Target Costing, Production Costs, Production Cost Control.

INTRODUCTION

In an era of increasingly fierce free trade, competition in all business sectors has an impact on the Indonesian economy. However, there is a positive impact that opens up opportunities for Indonesia to expand its product exports. Therefore, company management must choose the best actions and policies to achieve company goals, especially the main goal, namely optimizing profit or profit. In an effort to achieve this goal, the company must be able to produce production with good quality and high production levels. During the free trade period, there was very tight competition in all sectors. According to Pioh et al (2019), the products/services offered by entrepreneurs are increasingly diverse with the expansion of free trade and technological developments. To overcome this competition, entrepreneurs must innovate to produce superior products while reducing or minimizing production costs. According to Setyaning & Wijayanti (2022), competition in the manufacturing world requires companies to have an effective strategy to bring the right price to the market. Considering the costs involved in production, companies with the right methods can survive in the face of stiff competition.

Companies that need to create or at slightest survive must be able to deliver tall generation with great quality. Tall generation comes about will be accomplished in the event that the company has tall generation effectiveness. In any case, accomplishing tall generation effectiveness isn't simple, since numerous components impact it, both inner and outside to the company. These components incorporate labor, crude materials, machines, generation strategies and markets. For the most part, companies work by creating and creating goods/services to begin with. At that point begin calculating the costs brought about for this sort of generation and decide the offering cost for the item, after that the item is prepared to be marketed. However, within the target costing strategy, the method that happens is fair the inverse. Target costing considers all item or benefit costs within the item life cycle and points to decrease the whole taken a toll of a item or benefit. The objective that the company needs to realize by executing target costing is to diminish add up to costs from the past add up to costs so that the company can get most extreme benefits without having to extend its offering cost. (Erviqa et al., 2022).

Generation costs are a number of financial penances that must be made to create an thing and change over crude materials into wrapped up items (Fransiska, 2019). In fabricating companies, generation costs can be separated into prime costs and transformation costs. Prime costs comprise of coordinate materials and coordinate compensation, whereas change costs comprise of roundabout compensation and indirect costs. Generation costs too comprise of three vital components, to be specific coordinate crude materials, coordinate labor, and manufacturing plant overhead. Coordinate crude materials incorporate all materials that are coordinates with the wrapped up item and are included unequivocally within the item fetched calculation. Coordinate labor is labor that changes over crude materials straightforwardly into wrapped up items and can be suitably charged to a particular product, whereas production line overhead includes all fabricating costs that cannot be followed specifically to a specific yield. (Bancin et al., 2023).

Hence, for companies, generation costs are an vital figure in whether the company is effective or not from a budgetary viewpoint. This generation fetched could be a huge fetched item compared to other fetched things. So the most objective of controlling generation costs is to be able to utilize financial assets to deliver successfully, so that there's no squander of costs in generation. This generation taken a toll is additionally an imperative element in calculating the fetched of generation. Calculating the taken a toll of generation is exceptionally imperative considering that the advantage of data on the cost of production is to decide the offering cost that will be displayed within the monetary position report (Sari, 2021). The taken a toll of generation may be a collection of costs brought about to handle crude materials into wrapped up merchandise. Taken a toll of products fabricated is critical to supply administration with an outline of in general generation costs and whether these costs are as well tall or as well moo. By way better understanding the costs of merchandise created, companies can make alterations to maximize generally benefit.

There needs to be a policy set by the company in order to achieve maximum profits. The policy implemented can be in the form of planning to control production costs (Dinda et al., 2021). Policies in controlling production costs in general are a strategy for companies in planning appropriate production costs in the context of efficiency and cost effectiveness (Juwita & Satria, 2017, Maksum et al., 2021). If changes in support occur, an ideal method is needed according to market conditions and company conditions, so that

the company can make a profit and achieve its goals. One solution that can be done so that the company can make a profit and achieve its goals is by using the target costing method. Target costing is a strategy used by companies to plan the price of new products based on competitive prices before starting production, so that the product will later be able to obtain the expected profit (Rahman et al., 2022). Target costing has a tendency to reduce costs (cost reduction) which is determined at the planning and design stages. Target costing is a system to support the process of reducing costs in the development and planning stages of certain products, full capital changes or regular capital changes (Dilasari et al., 2023).

Target costing is often called cost planning or cost project to reduce overall product costs throughout the life cycle of the product in question. The application of target costing in a company must also pay attention to matters related to the successful implementation of the innovation. In its application, target costing requires effective interaction between the production, engineering, research and development, marketing and accounting departments. This target costing concept aims to reduce product costs at the product planning and design stage, thereby enabling the company to achieve the market share of the desired profit target (Nasution et al., 2022). The target costing process does not just determine cost targets, but also includes how to achieve costs and obtain product quality that meets customer desires. The target costing process is also a multifunctional business management process that can be applied throughout the product life cycle (Dilasari et al., (2023).

LITERATURE REVIEW

Target costing

Target costing is determining the costs that originate from the planned selling price and expected profit in a product, then after that the company carries out the design process and production process to produce business updates to reduce product manufacturing costs (Caroline & Wokas, 2016). Target costing is a method of determining production costs, the company first determines the product costs that should be incurred according to competitive prices, so that the company produces profits according to the desired desires (Rudianto, 2016). Target costing, according to Mulyadi (2015:421), is a method for determining the cost of a product or service based on the price to be achieved and in accordance with consumer capabilities (Wuysang & Pusung, 2019). Meanwhile, according to Rudianto (2016), target costing is a method for determining production costs where the company first determines the production costs that must be incurred based on competitive market prices, so that the company gets the desired profit. According to Apriyanti (2019), target costing is a systematic process that combines cost management and profit planning. According to him, the main objective of target costing is to reduce production costs because once the target cost has been achieved, the new target cost can be set lower (Dinda et al., 2021).

According to the target costing method, in determining product costs, the company reviews these costs based on the market situation, then the company determines profits according to wishes, and decides the selling price for products that have been implemented according to the wishes of the community. Target costing reviews the overall costs of products and services with the aim of reducing all total costs for products and services. The aim of the company by applying the target costing method is expected to be able to reduce total costs from the previous total costs, thereby enabling the company to receive reasonable profits without increasing its selling price (Malue, 2013). Target costing, according to Salman (2016: 98), is a method for determining the maximum cost that can be incurred for a new product, and then developing a prototype that can be made and distributed at a price equal to the target value of that maximum cost profitably (Abdillah et al., 2020). Target costing is a system implemented by cost management to be used to minimize costs on a product. Basically, target costing is part of product development which manipulates equations and develops costs based on price, and designs products which then carry out the production process (Irawan et al., 2022 and Talia & Affan, 2022).

Production Cost

Generation costs, in common, can be separated into crude fabric costs, coordinate labor costs, and manufacturing plant overhead costs (Harventy et al., 2020). Agreeing to Mulyadi (2015:14), generation

costs are the costs caused to prepare crude materials into wrapped up items that are prepared to be sold. Agreeing to Hasen and Mowen, (Idrawahyuni et al., 2020) generation costs are the costs utilized in changing over crude materials into wrapped up products. In fabricating companies, generation costs can be separated into prime costs and change costs. Prime costs comprise of coordinate materials and coordinate compensation, whereas change costs comprise of backhanded compensation and backhanded costs. This generation fetched moreover ordinarily comprises of three components, specifically coordinate crude materials, coordinate labor and manufacturing plant overhead. Where coordinate crude materials are all crude materials that frame an indispensably portion of the wrapped up item and are included unequivocally within the item fetched calculation. Coordinate labor is labor that changes over crude materials specifically into wrapped up items and can be appropriately charged to a specific item, whereas manufacturing plant overhead is all fabricating costs that are not followed straightforwardly to a specific yield. Agreeing to Kholmi (2019), when a company carries out daily exercises, they ought to spend assets as penances. Generation costs, concurring to Kholmi (2019), are the costs caused to deliver an thing (Satar & Israndi, 2019).

Production Cost Control

Control is an effort to achieve something that is expected and determine the results of planning for conditions after production (Mulyadi, 2015). Cost control is carried out to make it easier to evaluate each process so that there are no deviations from planning before production. Controlling production costs with standard costs is carried out by comparing the costs sacrificed with the determined costs so that the costs incurred are still within reasonable limits. Analysis and evaluation are carried out as effectively as possible as a reference in the cost accounting function. Control centers on efforts, procedures, methods and targets that are determined so that waste does not occur (Hansen and Mowen, 2015). The results of evaluation and monitoring of control efforts aim to obtain high quantity and high quality results at low costs in the conditions produced.

Production costs are costs for processing raw materials into finished materials that are ready to be sold which are related to the production process. These production costs are divided into raw material costs, labor and factory overhead (Mulyadi, 2015). Raw material costs include all the costs of ingredients that make up a product, such as flour for making cakes. Labor costs are determined based on working time and marketing accommodation. Overhead costs include all costs that cannot be measured such as manufacturing costs (Mulyadi, 2015).

METHOD

This research uses a qualitative descriptive approach by conducting theoretical studies and previous literature reviews. This research discusses and examines previous literature regarding the application of cost budgets as Cost Control in companies and their impact on the efficiency of company operational costs, previous theories and research are collected and analyzed, then the researcher summarizes and links previous theories and research with conclusions and in-depth studies. Theoretical sources are obtained through journals, books and research through accredited journal websites. This research will provide an overview of how to implement cost budgeting as Cost Control through theory and comparing it with previous research. The research methodology used is purely through analysis of existing literature and theoretical studies related to the topics discussed in the research, then the researcher conducts discussions and provides conclusions through theoretical analysis and research results that support to obtain theoretical research results related to the themes discussed. in research.

RESULTS AND DISCUSSION

Controlling Production Costs as a Cost Efficiency Measure in Companies

The use of operational costs must be adjusted to existing needs, otherwise it will result in a decrease in profits. Therefore, there is a need for effective and efficient management of all important parts of the

company. high operating costs will cause the increase in profits to decrease, likewise if the value of operating costs is low the increase in profits will increase. Sales/marketing costs are all costs incurred and contained within the sales department environment, as well as other costs related to activities carried out by the sales department. Meanwhile, administrative and general costs are all costs that occur within the company's administrative office, as well as other costs that are for overall company administration needs (Munandar, 2016).

Cost control is a part of management that focuses more on controlling use and use of costs. One of the cost control programs aims to create efficiency in controlling costs (Gregoire, 2010:491). According to Samryn (2016: 211) in controlling costs you can use flexible budgets and standard costs. The role of Cost Control is as follows:

1. Have Expenditures. By carrying out analysis and synthesis and using comparisons, there is proper supervision and research.
2. Conduct business efficiency research. Expenditures for direct labor costs are easy to find, but if there is no productivity then this cannot be accounted for.
3. Make distribution of overhead costs.
4. Carry out production in economic quantities and in quantities that can be sold
5. Set the sales price
6. Reduce waste or waste

Based on the results of research conducted by Iswadi & Yusita (2019) which states that Cost Control has a significant influence on cost efficiency in a company, with cost control, expenses or costs that are not needed or required to support all forms of operations can be minimized and the use of costs can be used appropriately in accordance with the needs and provisions that have been prepared by the company. This production cost is also an important element in calculating the cost of production. The aim of implementing target costing by a company is to set the product cost in accordance with the desired target, which will be the basis for determining the product selling price to achieve the desired profit. This can help companies manage costs effectively, and to achieve this goal, the company forms a product development team which is responsible for designing products with costs that do not exceed predetermined cost targets. By using a target costing approach, it is hoped that it can become an effective production cost control tool for the Company. (Bancin et al., 2023).

Implementation of Target Costing as a Production Cost Control System in Companies

Companies that want to develop or at least survive must be able to produce high production with good quality. High production results will be achieved if the company has high production efficiency. However, achieving high production efficiency is not easy, because many factors influence it, both internal and external to the company. These factors include labor, raw materials, machines, production methods and markets. In order to be able to compete in today's market, a company must be able to create a product, both goods and services, whose price is lower or at least the same as the price offered by its competitors. To be able to obtain such products, companies must try as much as possible to reduce the costs incurred in the production process.

With target costing, companies can design a product or service that can meet consumer needs while simultaneously achieving the company's profit target, because target costing considers all product costs in the product life cycle, and aims to reduce the total cost of a product. After knowing the target costs that must be incurred in order to produce products that can compete, the next step is to produce the goods. It can be concluded that the results of implementing target costing with standard production costs regarding the implementation of target costing are much more efficient, where by implementing target costing the company can obtain cost savings. By using target costing, companies can save production costs and increase gross profit. So, it is increasingly clear that companies should carry out target costing in order to produce quality products that can compete but can still generate profits or profits as expected. On the basis of the description above, this paper tries to implement target costing in everyday life, especially in the business world. (Erviqa et al., 2022). The application of the target costing method is as follows:

- a. Determining market prices
- b. Determining the expected profit,

- b. Calculate target costs at market prices minus expected profits.
- c. Using value engineering to determine how to reduce product costs
- d. Use kaizen costing and operational controls to continually reduce costs.

Based on the stages that must be carried out to get results from applying the target costing method, there are two methods for controlling company costs, namely the fourth and fifth stages. For these two stages, it is not necessary to carry out both in one company depending on the company's needs, whether it is necessary to implement both or one of the two cost control methods. The final stage is if the target cost cannot be achieved then carry out value engineering and/or kaizen costing to reduce costs so that the target cost can be achieved. So after getting the targeted costs, the company then enters the value engineering cost control stage. (Erviqa et al., 2022).

Based on the results of research conducted (Dilasari et al., 2023), target costing can minimize production costs. By implementing target costing, companies can systematically manage the costs incurred by the company. So that the selling price set can be in accordance with market price standards and can compete with other competitors. Therefore, in setting market prices, business actors must carry out market analysis of the products they sell so that companies can find out the need for products on the market and price competition with competitors. Apart from that, by implementing target costing, companies can produce goods in accordance with consumer desires so that the goods produced can sell optimally.

In general, target costing is seen as having a beneficial influence on reducing costs and being able to meet the company's operational needs. Based on the results of previous research which also stated the success of implementing target costing in cost control using value engineering carried out by Amilatussaadah who concluded that implementing target costing through value engineering proved to be efficient so that the profit desired by business owners could be achieved (Amilatussaadah et al., 2021). Thus, it can be said that implementing Target Costing can increase the efficiency of production costs in companies. Based on the research results of Bancin et al. (2023), it can be concluded that implementing target costing is a very good option in reducing production costs.

The target costing method is considered effective in reducing or increasing product costs by evaluating product value alternatively (value planning) to maintain customer satisfaction. By restructuring existing costs, companies can achieve maximum profit from the selling price per unit of their product, while saving costs before the product is finished. This study shows that target costing is a viable alternative that provides positive results in maximizing company profits by reducing production costs during the product manufacturing process (Putra et al., 2023).

Based on the explanation above, it can be concluded that the application of target costing is an excellent option in reducing production costs, that the target costing method has succeeded in reducing company costs through product value engineering analysis at the design stage, which is an important stage because large product costs are generally determined and predictable at this stage. Target costing applied by companies can reduce their production costs by reducing waste at various stages of production, such as procurement of goods, storage of materials, the process of using materials and sewing, as well as the process of packaging and delivering products to the market. The target costing method is successful in reducing company costs by using value engineering analysis or product value engineering at the design stage. The design stage is very important because most of the product costs are determined and anticipated at this stage. The target costing method is used to reduce production costs in order to obtain profits in accordance with the company's desired profit targets.

Conclusion

The aim of implementing target costing by a company is to set the product cost in accordance with the desired target, which will be the basis for determining the product selling price to achieve the desired profit. This can help companies manage costs effectively, and to achieve this goal, the company forms a product development team which is responsible for designing products with costs that do not exceed predetermined cost targets. Target costing is considered effective in reducing or increasing product costs by evaluating product value alternatively (value planning) to maintain customer satisfaction. By restructuring existing costs, companies can achieve maximum profits from the selling price per unit of their product,

while saving costs before the product is finished. This study shows that target costing is a viable alternative that provides positive results in maximizing company profits by reducing production costs during the product manufacturing process. The target costing method is successful in reducing company costs by using value engineering analysis or product value engineering at the design stage. The design stage is very important because most of the product costs are determined and anticipated at this stage. The target costing method is used to reduce production costs in order to obtain profits in accordance with the company's desired profit targets.

BIBLIOGRAPHY

- Abdillah, L. A., Hasibuan, A., Purba, S., Tjiptadi, D. D., Sudarmanto, E., Solissa, F., Putra, A. H. P. K., Mistriani, N., Simarmata, H. M. P., & Manuhutu, M. A. (2020). Human Capital Management. Yayasan Kita Menulis.
- Amilatussaadah, A., Widiarti, H., & Amaliyah, F. (2021). Analisis Penerapan Target Costing Dalam Upaya Efisiensi Biaya Produksi Untuk Peningkatan Laba. <http://eprints.poltektegal.ac.id/276/>
- Apriyanti, A. (2019). Evaluasi sistem informasi akuntansi penjualan kredit. *COSTING: Journal of Economic, Business and Accounting*, 3(1), 186–197.
- Bancin S. M., Pohan S., Tambunan Y. S. (2023). Analisis Penerapan Target Costing sebagai Sistem Pengendalian Biaya Produksi pada UD. Era Jaya Kota Sibolga. *Global education Journal*. Vol. 1, No. 2, Page 87-96.
- Caroline, T. C., & Wokas, H. R. (2016). Analisis Penerapan Target Costing Dan Activity-Based Costing Sebagai Alat Bantu Manajemen Dalam Pengendalian Biaya Produksi Pada Ud. Bogor Bakery. *Jurnal EMBA*, 5934(1), 593–603.
- Dilasari A. T., Pramukti A., Faisal M. (2023). Analisis Penerapan Target Costing Sebagai Sistem Pengendalian Biaya Produksi. *Jurnal Ilmu Ekonomi* Vol. 6 No. 3, Hal. 151-163.
- Dinda, B. M. A., Yulinartati, Y., & Maharani, A. (2021). Analisis Penerapan Target Costing dalam Upaya Pengendalian Biaya Produksi pada CV Multi Bangunan. *Jurnal Penelitian Dan Pengembangan Sains Dan Humaniora*, 5(2), 220. <https://doi.org/10.23887/jppsh.v5i2.31494>
- Erviqa A., Yulianta, Parmuji, Ridwan F. (2022). Analisis Penerapan Target Costing Sebagai Sistem Pengendalian Biaya Produksi Tangki Air Fiber (Studi Kasus Pada UD Karya Bersama Fiberglass di Cibinong Kabupaten Bogor). *Jurnal NERACA PERADABAN*. VOLUME 2, NOMOR 2, Hal. 89-98.
- Fransiska, L. (2019). Analisis Biaya Produksi Dalam Rangka Penentuan Harga Jual Makanan Pada Rumah Makan Meychan Serba Sepuluh Ribu Di Pringsewu. Universitas Muhammadiyah Pringsewu.
- Gregoire, Mary B (2010). *Food Service Organizations: A managerial and System Approach*. Eight Edition. South-Western, Cengage-Learning.
- Hansen, D. R., Mowen, M. M., & Guan, L. (2015). *Cost Management (Accounting & Control)* (6th Ed.). Cengage Learning
- Harventy, G., Zubaidah, S., & Kholmi, M. (2020). Pendampingan Penyusunan Pelaporan Keuangan Pada Kelompok Usaha Kecil Dan Menengah Brosem Semeru. *Jurnal Pengabdian Dan Peningkatan Mutu Masyarakat (Janayu)*, 1(1), 60–74.
- Idrawahyuni, I., Adil, M., Nasrun, M., & Herianto, D. A. (2020). ANALISIS PENERAPAN TARGET COSTING SEBAGAI SISTEM PENGENDALIAN BIAYA PRODUKSI (Studi Kasus Pada UD. Winda Kabupaten Gowa Provinsi Sulawesi Selatan). *Equilibrium : Jurnal Ilmiah Ekonomi, Manajemen Dan Akuntansi*, 9(2). <https://doi.org/10.35906/je001.v9i2.562>.
- Irawan, Setiana, E. (2022). Contractual Incentives for Information Production and Market Failures in Pandemic COVID 19 Situation. *Mathematical Statistician and Engineering Applications*. 71(3s). 371–383. https://www.philstat.org.ph/special_issue/index.php/MSEA/article/view/35
- Iswadi, Adi & Yusita, Helda, S.Pd, M.M. 2019. Analisis Penerapan Cost Control Dalam Efisiensi Biaya di PT.Mega Persada Indonesia. *Jurnal Ekuilibrium STIE Triguna Jakarta*. 8 (1) 116.
- Juwita, R., & Satria, M. R. (2017). Penerapan Target Costing dalam Upaya Efisiensi Biaya Produksi untuk Peningkatan Laba Produk. *Jurnal Kajian Akuntansi*, 1(2), 184–193. <https://doi.org/10.33603/jka.v1i2.701>
- Kholmi, M. (2019). *Akuntansi manajemen* (Vol. 2). UMMPress.

- Malue J. (2013). Analisis Penerapan Target Costing Sebagai Sistem Pengendalian Biaya Produksi Pada PT Celebes Mina Pratama. *Jurnal EMBA*, 1(3), 949–957.
- Maksum, A., Lubis, A., Marhayanie, Putri, N.C., Azhar, I.A.S. (2021). The Effects of Production, Prices and International Trade on The Europe's Export Volume. *Turkish Online Journal of Qualitative Inquiry*. 12(6). 5010–5015. <https://www.tojqj.net/index.php/journal/article/view/3721>
- Mulyadi. (2015). *Akutansi Biaya*. Edisi Lima. UPP STIM KPN. Yogyakarta
- Munandar, M. (2016). *Budgeting*. Edisi kedua. Cetakan Ketiga. Yogyakarta:BPFE.
- Nasution, A. A., Ulfah, Y., Erlina, E., & Nedelea, A. M. (2022). The Effect of Labor Input, Construction Cost, and Building Permits on Production Construction With Structural Equation Modeling, Evidence from Europe. *International Journal of Professional Business Review: Int. J. Prof. Bus. Rev.*, 7(3), 7. <https://doi.org/10.26668/businessreview/2022.v7i3.0592>
- Pioh, F. T., Manossoh, H., Tirayoh, V. Z., Ekonomi Dan Bisnis, F., & Akuntansi Universitas Sam Ratulangi Manado, J. (2019). Analisis Penerapan Target Costing Sebagai Alat Bantu Untuk Meminimalkan Biaya Produksi Dalam Rangka Mengoptimalkan Perolehan Laba Pada Ud. Acong Bakery Analysis Of Target Costing As A Tool To Minimize Production Costs In Order To Optimize Profit Earnings At Ud. Acong Bakery. 7(4), 3149–3158.
- Putra I G. A. D., Animah, Adhitya B. S. (2023). Penerapan Target Costing untuk Efisiensi Biaya Produksi Ayam Kampung (Studi Kasus Pada Peternakan Bersahabat). *Valid Jurnal Ilmiah* Vol. 21 No.1, h.107-119 DOI. 10.53512/valid.v21i1.311.
- Rahman, A., Caroline, C., Panjaitan, P. D., & Situmorang, R. Y. (2022). The panel data regression: relationship of the exports, imports and intake of oil reserves son oil production levels in southwest asian countries to contribute to state revenue (The implement of International Trade Theory). *International Journal of Professional Business Review*, 7(3), e0593-e0593. <https://doi.org/10.26668/businessreview/2022.v7i3.0593>
- Rudianto, (2018). *Akuntan Intermediate*, Jakarta: Erlangga
- Salman, K. R. (2016). *Akutansi Biaya* (2nd Ed.). Indeks.
- Samryn, L.M., (2016). *Pengantar Akuntansi*, Jakarta: PT RajaGrafindo Persada.
- Sari V. M. (2021). Analisis Alokasi Biaya Produksi Bersama dalam Menentukan Harga Pokok Produksi untuk Mengoptimalkan Laba Perusahaan pada PT. KEMANG FOOD INDUSTRI. 2504, 1–9. http://repository.stei.ac.id/7708/2/BAB_1.pdf.
- Satar, M., & Israndi, A. (2019). Pengaruh kualitas bahan baku dan efisiensi biaya produksi terhadap kualitas produk pada CV. Granville. *Akurat| Jurnal Ilmiah Akuntansi FE UNIBBA*, 10(3), 89–101
- Setyaning Ayu, D., & Wijayanti, A. (2022). Analisis Penerapan Target Costing Dalam Meningkatkan Efisiensi Biaya Produksi Singleface Pada Pt. Hilal Gemilang Khair. *Journal Ekombis Review*, 10(1), 397–407. <https://doi.org/10.37676/Ekombis.V10i1>.
- Talia D. M., Affan N. (2022). Analisis penerapan target costing dan activity based costing sebagai alat bantu manajemen dalam pengendalian biaya produk. *urnal Ekonomi, Keuangan dan Manajemen*. Volume. 18 Issue 3. Pages 532-539.
- Wuysang, C. C., & Pusung, R. J. (2019). Penerapan Target Costing Dalam Upaya Efisiensi Biaya Produksi Untuk Peningkatan Laba Kotor Pada UD. JJ Bakery. *Jurnal EMBA: Jurnal Riset Ekonomi, Manajemen, Bisnis dan Akuntansi*, 7(3).

CHAPTER 2

Analysis of the Implementation of Management Control Systems Using the Levers of Control Model at PT. Kalbe Farma

Mellinda Sri Wardani¹, Adinda Lestari Siregar², Iskandar Muda³

^{1,2,3}Universitas Sumatera Utara, Medan, Indonesia

¹Email: melindasriwardani@gmail.com

Alexandru-Mircea Nedelea⁴

⁴ Coordinator Club of Asian Studies, Faculty of Economics and Public Administration,
Stefan cel Mare University of Suceava, Romania

Email: alnedelea@yahoo.com

ABSTRACT

The management control system and manager's direction are different for each company. Because there are variables that differentiate each company. Therefore, this research will analyze the application of the concept of the Four Levers of Control theory at PT. Kalbe Farma Tbk. The object of this research is health and other product companies. This research uses a qualitative approach, the data collection source method for this research is carried out by literature study, interviews and data analysis. Every company needs a variety of control levers that are compatible with the company's conditions; In the Belief Systems Analysis, the company has motivated employees to apply values and has a vision, mission and values that are in accordance with company rules. The implementation of these belief systems is communicated in various ways, such as frames attached to office walls, on the company website, displayed in internal meetings and during the recruitment process for new employees, they are asked about the company's vision and mission. Apart from that, Panca Sradha values are also instilled through training for employees. Boundary Systems The company has created these boundaries through predetermined behavioral restrictions. PT. Kalbe Farma Tbk. has contained clear and comprehensive rules contained in the Business Ethics Guidelines, as well as the implementation of company pillars. Diagnostic Control Systems implements a vertical-based planning system and budget as well as balanced scorecard-based company performance measurement with good results. Intractive Control Systems are implemented regularly through Chief Chat sessions to increase open communication between employees and management.

Keywords: Management Control Systems, Levers of Control, Belief Systems, Boundary Systems, Diagnostic Control Systems, Interactive Control Systems.

INTRODUCTION

The development of the world economy has had a huge impact on the survival of a company, where currently challenges do not only come from within the country but from abroad as well. Today, every company needs to think intensively about what business goals it wants to achieve and what actions it needs to take to continue operating in a highly competitive environment. To achieve company goals, the first thing that must be done is to formulate a strategy. Once the strategy is set, the next step is to make a plan about what will be done in the future in relation to the strategy that has been made previously to achieve the goals that have been set.

Mardiasmo (2009) explains that in order for every company or organization to have goals that help maintain the dynamics of organizational change and ensure that these goals are achieved within the company or organization, a control system is needed. To achieve the goals, a management control system is needed that is specifically created to support the established strategy (Hanum et al., 2020). Management Control Systems (SPM) is a framework designed to help organizations achieve their goals by identifying, measuring, managing and monitoring their business performance.

Goal Congruence or alignment of goals is the main goal of a management control system (Anthony & Govindarajan, 2016). In an organization, each individual has personal goals that are different from the goals of the organization. The role of management control systems is to bridge individual and organizational goals. Aligning goals keeps all parts of the organization moving together in the same direction. In other words, if the organization's goals are achieved, then the goals of every individual in the organization must also be achieved and not neglected.

The management control system has several theories or models, one of the management control system models is the Four Levers of Control. This theory was introduced by Robert Simons (1995), where the four levers of control consist of four systems, namely belief system, boundary system, diagnostic control system, interactive control system. Belief System is a formal system used by management to define, communicate and strengthen the company's core values, goals and activities, Boundary System is a formal system used by management to establish boundaries and rules that must be followed, Diagnostic Control System is a system formal feedback used to monitor company results and deviations from performance measurements, and the Interactive Control System, which is a formal system for management to involve subordinates personally and regularly in decision making (Laurensius, 2021).

PT. Kalbe Farma Tbk. is a public health products company founded in 1966. During the company's founding, business development was carried out intensively through strategic acquisitions of other pharmaceutical companies, the creation of superior product brands and international market access in the context of transformation. Kalbe has become an integrated nutrition and health products company with the strength of innovation, marketing strategy, brand development, distribution, financial strength, research and development and manufacturing expertise which is an unmatched challenge in achieving our mission to improve health for a better life.

In terms of products, PT Kalbe Farma Tbk continues to develop its product line so that it becomes one of the pharmaceutical companies to be reckoned with in Indonesia, both in the category of prescribed drugs (Ethical) and over-the-counter drugs (OTC/Over the Counter). PT. Kalbe Farma offers a variety of products for all segments, ranging from unbranded generic drugs, branded generic drugs to licensed drugs. These products are distributed to hospitals, pharmacies and drug stores throughout the archipelago through an integrated distribution network. Kalbe also has a strong marketing team, divided into groups dedicated to each segment and class of therapy, thereby facilitating targeted and effective marketing efforts.

With more than 17,000 employees, Kalbe Farma is the largest healthcare service provider in Indonesia with strong marketing, distribution, financial strength and research and development expertise. PT. Kalbe Farma is one of the largest pharmaceutical companies in Southeast Asia whose shares are listed on the stock exchange with a market capitalization value of more than IDR 71 trillion and sales exceeding IDR 28 trillion. Currently, Kalbe carries out business activities in the health sector through business diversification consisting of the Prescription Medicines Division, Health Products Division, Nutrition Division, and Distribution and Logistics Division.

Research on management control systems using the Four Levers of Control model has previously been

carried out by previous researchers. According to several previous studies, it has been proven that there are still companies that are still weak in implementing management control systems, especially seen from the application of the Four Levers of Control model (Janrosl, 2021). Therefore, the author also wants to know how well PT. Kalbe Farma has implemented a management control system with the Four Levers of Control model. The purpose of this research is to determine and describe the implementation of the Management Control System with the Four Levers of Control model at PT. Kalbe Farma Tbk.

LITERATURE REVIEW

Management Control System

The management control system is a process by which managers influence other organizational members to implement organizational strategies (Anthony & Govindarajan, 2016). In a control system, several important activities that must always be considered are planning, coordination, communication, evaluation and decision making. A management control system is a system for planning future goals that an organization wants to achieve, planning activities to achieve these goals, and implementing plans and monitoring that have been achieved (Mulyadi, 2011, Hasibuan et al., 2022).

According to (Sumarsan, 2013), the Management Control System (SPM) is a series of actions and activities that occur and continue to occur in all organizational activities. Management control is not just a system in an organization but is also considered an important part of every system used by management to organize and manage its activities. The criteria for the system are as follows:

1. The system is designed to achieve goals.
2. System components must have a clear plan.
3. System elements must be related and consistent with the achievement of organizational goals in general and the achievements of departments and divisions in particular.
4. The basic elements of the process (flow of information, energy, materials) are more important than the system elements.
5. Organizational goals are more important than departmental goals

An adequate control system must at least be able to motivate the individuals involved so as not to create a conflict between their efforts and the interests of the entire company. Formal and informal systems influence individuals in an organization. According to (Anthony & Govindarajan, 2016), informal factors in the management control system include:

1. External factors.

External factors are behavioral norms expected by society and corporate organizations are also part of it. This standard combines professional ethics through loyalty, corporate organization, perseverance, enthusiasm and efficiency to complete tasks (Not just completing tasks on time).

2. Internal factors.

Internal factors in the management control system include:

- a. Culture.
- b. Leadership style.
- c. Informal organization.
- d. Understanding and communication.

Meanwhile, formal factors in the management control system according to (Anthony & Govindarajan, 2016) are:

1. Management control system
2. Rules.

Four Levers of Control Concept

According to Simons in (Adhitama, 2017) Levers of Control means a model that focuses on implementing strategies in the management control system. The model consists of four controls, namely:

1. Belief Systems

Belief systems are a set of clear organizational definitions, formally communicated by senior managers, and systematically implemented to provide an organization with basic values, goals and direction (Simons, 1995). Belief systems are designed to help managers communicate and reinforce values that are difficult for employees to understand. In addition to communicating the organization's core values and goals, such as a positively communicated vision and mission statement, it also serves as a guideline. And it also aims to provide inspiration and innovation for employees in looking for new opportunities.

2. Boundary Systems

Boundary systems are formal systems used by superiors to set boundaries and rules that must be obeyed (Simons, 1995). There are two types of boundary systems, namely business conduct boundaries (codes of ethics that set limits for employees) and strategic boundaries (which describe acceptable behavior when employees pursue opportunities). The goal is for employees to be free to innovate and excel in their respective fields. An example of a boundary system is a system that contains rules, limitations and prohibitions in an organization's code of ethics.

3. Diagnostic Control Systems

Diagnostic control systems are formal information systems that managers use to monitor organizational results and correct deviations from predetermined performance standards (Simons, 1995). Managers are interested in monitoring through diagnostic control systems that report a variety of information about important performance variables as well as factors that must be achieved or implemented successfully for the desired business strategy to succeed. One of the main goals of diagnostic control systems is to remove the burden on managers of having to monitor continuously. Instead of constantly monitoring various internal processes and comparing results with preset targets and objectives, managers can receive periodic reports from different staff groups.

4. Interactive Control Systems

Interactive control systems are formal information systems that managers use to regularly and personally participate in subordinates' decision-making activities (Simons, 1995). Interactive control systems focus on the need for innovation and creativity. The goal is to help organizations or businesses adapt to strategic uncertainty so that organizational or business goals can be achieved smoothly. Interactive control systems motivate employees in organizations to search creatively and expand the search space for opportunities.

Diagnostic control systems and interactive control systems work together to enable implementation of today's strategies, while enabling companies to position themselves to face tomorrow's changing markets. Apart from diagnostic control systems and interactive control systems, there are also belief systems and boundary systems. Simultaneously, belief systems and boundary systems produce dynamic actions between commitment and punishment. These systems set direction, motivate and inspire, and protect against potentially destructive opportunistic behavior (Tekavcic et al., 2008).

The levers of control method is able to control the relationship between innovation and efficiency. Boundary systems are strongly influenced by control and limitations. However, it also reflects learning, as competitors' past mistakes and tactical moves determine adjustments in business behavior and strategic constraints. Diagnostic control systems clearly emphasize control and efficiency. On the other hand, setting goals, measuring results, addressing differences and providing rewards, involve elements of innovation and learning. Interactive control systems also involve control and learning, although learning and innovation dominate, because senior managers use the interactive control process as a force to force the organization to monitor changing market dynamics and motivate debate about data, assumptions, and action plans. Over time, the information and learning generated by interactive control systems can be embedded in the strategies and goals monitored by diagnostic control systems (Simons, 2000).

METHOD

This research uses a qualitative descriptive approach by conducting theoretical studies and previous literature reviews. This research discusses and reviews previous literature regarding the implementation of a management control system based on the Four Levers of Control (4LOC) framework and its implications for start-up performance. Theories and previous research are collected and analyzed, then the researcher summarizes and links the theories and previous research with conclusions and in-depth studies. Theoretical sources are obtained through journals, books and research through accredited journal websites. This research will provide an overview of how to implement a Management Control System based on the Four Levers of Control on start-up performance through theory and comparing it with previous research. The research methodology used is purely through analysis of existing literature and theoretical studies related to the topics discussed in this research. Then, the researcher conducts a discussion and provides a conclusion through theoretical analysis and research results that support obtaining theoretical research results related to the themes discussed in this research.

RESULTS AND DISCUSSION

Belief Systems Analysis

In analyzing belief systems, the author will focus on analyzing the vision and mission statements and the values implemented by the company. The company's vision is "To become the best Indonesian health company globally based on innovation, brand strength and superior management". While its mission is, "Improving health for a better life". Apart from the vision and mission, PT. Kalbe Farma also has a main value called Panca Sradha Kalbe.

The implementation of these belief systems is communicated in various ways, such as frames attached to office walls, on the company website, displayed in internal meetings and during the recruitment process for new employees, they are asked about the company's vision and mission. Understanding of employees is also continued through the implementation of company pillars which are in line with a combination of the company's vision and mission and company values. Periodically, Kalbe provides training to employees in stages to support quality work experience and develop a leadership mindset based on Kalbe Panca Sradha values. This is in accordance with Simons' (2000) statement in Tero (2009) that belief systems as a reflection of the company's vision and mission as well as its values are used by managers and strengthened systematically in formal form to communicate through various media to the entire core of the business entity.

Boundary Systems Analysis

In this boundary system, the company has created these boundaries through predetermined behavioral restrictions. PT. Kalbe Farma Tbk. has contained clear and comprehensive rules listed in the Business Ethics Guidelines. Information related to company regulations can be accessed by the general public so that the public can know the limitations on PT. Kalbe Farma Tbk. The application of company business ethics applies to the board of commissioners, committees, directors, management and all employees.

At strategic boundaries, PT. Kalbe Farma Tbk. shows that the company has a clear commitment through the pillars contained in the company's sustainability report. Internally, Kalbe has the ERAT pillars, namely Ethos, Body, Asa and Action. Meanwhile, within the company's external scope, Kalbe has the SEHAT pillars, namely Health Science and Technology, Ecosystem and Environmental Sustainability, Healthy Living and Health Education, Access to Health Services and Total Sustainable Business Ecosystem. Through the company's sustainability report, Kalbe states a clear commitment to business management that can have a long-term impact on consumers and society.

Diagnostic Control Systems Analysis

In the diagnostic control system, it is stated that this system is a formal feedback system that is used to monitor the benefits achieved by the organization and correct deviations that are not in accordance with the organization's performance standards. Implementation of this system includes creating a planning system, budget and performance measurement using a balanced scorecard (Simons, 1995).

At PT. Kalbe Farma Tbk. implementing a vertical-based planning system and budget, where each

business unit provides a budget plan prepared based on senior management direction for approval. In preparing the budget, Kalbe always carries out an annual review of strategic risks in accordance with changes in business unit initiatives. The results of the annual strategic risk review become the basis for the company's annual budget planning. Company performance can be measured using a balanced scorecard system. Measurement using a balanced scorecard can be measured using four perspectives, namely financial perspective, customer perspective, internal business perspective, innovation and learning perspective.

a. Financial perspective

Table 1. Financial Ratio

Rasio-Rasio Keuangan (%) Financial Ratios (%)						
dalam %	2023	2022	2021	2020	2019	In %
Rasio Laba terhadap Aset	10.2	12.7	12.6	12.4	12.5	Return on Assets
Rasio Laba terhadap Ekuitas	12.0	15.6	15.2	15.3	15.2	Return on Equity
Marjin Laba Bruto	38.8	40.4	43.0	44.3	45.3	Gross Profit Margin
Marjin Laba Bersih	9.1	11.7	12.1	11.8	11.1	Net Profit Margin
Rasio Lancar	490.8	377.1	444.5	411.6	435.5	Current Ratio
Rasio Liabilitas terhadap Aset	14.6	18.9	17.1	19.0	17.6	Liabilities to Assets Ratio
Rasio Liabilitas terhadap Ekuitas	17.0	23.3	20.7	23.5	21.3	Liabilities to Equity Ratio

Sources : Kalbe Farma Financial Ratio (2024).

In the last 5 years, in general the company's financial performance has tended to be stable, considering the declining global economic conditions due to the Covid-19 pandemic in 2020 to 2022. A stable rate of return on assets shows that the company's performance is quite good in maintaining company profits.

b. Customer perspective

If we look at the annual report data of PT. Kalbe Farma Tbk. in 2023, the company achieved net sales of IDR 30,449 billion compared to IDR 28,934 billion in 2022. The prescription drug division managed to record a sales increase of 24.0% from IDR 6,149 billion to IDR 7,625 billion in 2023, and contributed 25.0% of the company's total net sales. Kalbe's health products division posted a decline in net sales of -10.9% reaching IDR 3,698 billion, and contributed 12.1% of Kalbe's total net sales in 2023. The nutrition division managed to outpace market growth by posting net sales growth of 2.0 % reached IDR 7,985 billion and contributed 26.2% of the company's total net sales. The distribution & logistics division recorded net sales growth of 3.1% from IDR 3,044 billion to IDR 3,135 billion in 2023, and contributed 36.6% to the company's total net sales.

The decline in sales of the health products division was caused by pressure on pricing standards and the impact of currency conversion. In the midst of the global supply chain crisis and scarcity of imported raw materials during the pandemic, Kalbe decided to ensure the supply of raw materials to maintain domestic product supplies.

c. Internal business perspective

According to company sustainability report data, PT. Kalbe Farma Tbk. will have a total of 16,795 employees in 2023, with a composition of 67% men and 33% women. This number increased compared to the previous year. This shows high loyalty to the company.

d. Innovation and learning perspectives

Research and development projects are primarily focused on prescription drugs. If you look at the company's annual report, it can be seen that the company's net income has increased from 2022 to 2023. This also shows an increase in the company's performance in terms of innovation and learning.

Analysis of Interactive Control Systems

In the analysis of interactive control systems, it cannot be separated from strategic uncertainties.

According to (Simons, 1995) strategic uncertainties are obstacles and opportunities that can arise and can result in the assumptions underlying the current business strategy being no longer applicable to the company. Examples of strategic uncertainties include: technological developments, changes in population demographics and changes in government policy. Regarding strategic uncertainty, it can be interpreted that PT. Kalbe Farma Tbk. in facing strategic changes that have an impact on the implementation of the company's strategic plan. In facing existing changes, PT. Kalbe Farma Tbk. are ready to face it with the pillars that they have developed and implemented fundamentally with employees.

PT. Kalbe Farma Tbk. has implemented an interactive control system which is carried out regularly through Chief Chat sessions to increase open communication between employees and management. In the Chief Chat session, employees can submit questions or suggestions directly to top management. Apart from that, the company also continues to encourage employees to update their professional knowledge through professional certification.

CONCLUSION

Based on the results of the analysis and discussion above, it can be concluded that PT. Kalbe Farma Tbk. has implemented a management control system based on the concept of the Four Levers of Control model as proposed by Simons (1995), which includes Belief Systems, Boundary Systems, Diagnostic Control Systems, and Interactive Control Systems that PT. Kalbe Farma Tbk. have implemented this concept as a whole well. PT. Kalbe Farma Tbk. has implemented belief systems through various methods, one of which is instilling Panca Sradha values through training for employees. PT. Kalbe Farma Tbk. has implemented a boundary system of rules made by the company in the form of Business Ethics Guidelines, apart from that the company also implements the company pillars, namely ERAT and HEALTHY. PT. Kalbe Farma Tbk. has implemented diagnostic control systems with a vertical-based planning system and budget, where each business unit provides a budget plan prepared based on senior management direction for approval. Balance scorecard based performance measurement shows good results. PT. Kalbe Farma Tbk. has implemented interactive control systems through Chief Chat sessions to increase open communication between employees and management.

BIBLIOGRAPHY

- (n.d.). *Etika Bisnis*. PT. Kalbe Farma Tbk.
- Adhitama, S., & Aulia, D. R. (2017). Analisis Penerapan Sistem Pengendalian Manajemen Dengan Model Four Levers of Control di Pusat Pendidikan Dan Pelatihan Bea Dan Cukai. *Jurnal Info Artha*, 34-46.
- Anthony, N., R., & Govindarajan, V. (2016). *Sistem Pengendalian Manajemen*. Jakarta: Salemba Empat.
- Gunanto, D. S. (2013). SISTEM PENGENDALIAN MANAJEMEN PT KALBE FARMA. *Jurnal Akuntansi dan Pajak*.
- Hanum, Z, Bukit, R, Muhyarsyah (2020). The Effect of The Role of The Internal Control System on Good University Governance In Private Education In Medan. *Research Article in Proceedings of the 3rd International Conference on Advance & Scientific Innovation, ICASI 2020, 20 June 2020, Medan, Indonesia*. <http://dx.doi.org/10.4108/eai.20-6-2020.2300698>
- Hasibuan, T. F. H., Meifari, V., (2022). Management Control System of Politechnic Of Health Ministry Of Health Tanjungpinang With The Use Of Digitalization Accounting As A Financial Management System. *Journal of Pharmaceutical Negative Results*, 4208-4214. <https://doi.org/10.47750/pnr.2022.13.S07.527>
- Hasyim, M. A., Zamzami, S., Yanti, D., & Mandaku, M. I. (2021). Analisis Penerapan Model Four Levers of Control (Studi Kasus PT. Indorama Synthetics Tbk Polyester Division di Purwakarta). *Widya Cipta: Jurnal Sekretari dan Manajemen*.
- Janrosl, V.S.E (2021). Impact of the Implementation of the E-Accounting System on the Internal Control System. *Proceedings of the 1st International Conference on Social, Science, and Technology, ICSST 2021, 25 November 2021, Tangerang, Indonesia*. <http://dx.doi.org/10.4108/eai.25-11-2021.2318855>
- Laurensius, F (2021). Analysis of the Internal Control System on the Revenue Cycle of Lending at Rural Bank. *Proceedings of the 1st International Conference on Social, Science, and Technology, ICSST 2021, 25 November 2021, Tangerang, Indonesia*. <http://dx.doi.org/10.4108/eai.25-11-2021.2318821>

- Mahulette, B. W., Karamoy, H., & Wangkar, A. (2020). Analisis Penerapan Sistem Pengendalian Manajemen Dalam Usaha Meningkatkan Kinerja Manajer Produksi Pada Pt. Citra Raja Ampat Canning. *Jurnal EMBA*.
- Mardiasmo. (20019). *Akuntansi Sektor Publik*. Yogyakarta: ANDI.
- Mulyadi. (2011). *Sistem Perencanaan dan Pengendalian Manajemen*. Jakarta : Salemba Empat.
- Prasetya, C., & Pontjoharyo, W. (2019). Penerapan Sistem Pengendalian Manajemen Dari Perspektif Levers Of Control Dalam Meningkatkan Kinerja Organisasi Pada Net. Biro Jawa Timur. *Jurnal Ilmiah Mahasiswa Universitas Surabaya*.
- PT. Kalbe Farma Tbk (2023). *Laporan Keberlanjutan*. Jakarta.
- PT. Kalbe Farma Tbk (2023). *Laporan Tahunan*. Jakarta.
- Simons, R. (1995). *Levers of Control: How Managers Use Innovative Control Systems to Drive Strategic Renewal*. Boston.
- Simons, R. (2000). *Performance Measurement & Control Systems For Implementing Strategy: Text and Cases*. Upper Saddle River.
- Sumarsan, T. (2013). *Sistem Pengendalian Manajemen, Konsep, Aplikasi dan Pengukuran Kinerja*. Edisi 2. Indeks.
- Tekavcic, M., Peljhan, D., & Sevic, Z. (2008). Levers Of Control: Analysis Of Management Control Systems In A Slovenian Company. *The Journal of Applied Business Research*.
- Tero, J. (2009). Re-Examining The Levers Of Control-Framework : From Interactive Control Towards. *Helsinki School of Economics*, 15-21.

CHAPTER 3

Analysis of the Implementation of the Operating Cost Budget as a Cost Control System on Operational Cost Efficiency in The Company

Dian Andriani¹, Hendra Mulnandar², Iskandar Muda³

^{1,2,3}Universitas Sumatera Utara, Medan, Indonesia

Email: dian.17ee@gmail.com

Alexandru-Mircea Nedelea⁴

⁴ Coordinator Club of Asian Studies, Faculty of Economics and Public Administration,
Stefan cel Mare University of Suceava, Romania

Email: alnedelea@yahoo.com

ABSTRACT

The purpose of this article is to discuss and analyze the role and application of cost budgets as Cost Control in companies and their impact on cost efficiency in companies. Researchers conducted theoretical studies and previous literature reviews. In this research, we will also examine previous research which provides an overview regarding the implementation of cost budgets and cost control and their impact on the efficiency of production costs within the company. This research uses a qualitative descriptive approach by conducting theoretical studies and literature reviews by conducting literature studies and collecting journals via websites and the internet. The research methodology used is purely through analysis of existing literature and theoretical studies related to the topics discussed in the research, then the researcher conducts discussions and provides conclusions through theoretical analysis and research results that support to obtain good theoretical research results related to themes discussed in the research. Through the results of theoretical studies and literature reviews, results were found with the conclusion that operational cost budget analysis is useful for determining the efficiency and control of operational costs that have been carried out by the company. Cost control is a part of management that focuses more on controlling use and use of costs. In an effort to increase protection of the company's cash flow, one of the steps that must be taken is to control all costs. Operational cost control as Cost Control in the company plays a role in the process of recording, collecting, allocating and reporting costs which will play a role in control. This role can be realized in the form of a budget, standard costs, recording procedures.

Keywords: Operating Cost Budget, Cost Control, Cost Efficiency.

INTRODUCTION

Companies are required to be able to concentrate all activities so that they can adapt to economic progress. This will encourage companies to re-analyze the policies they have implemented in their entirety, one of which is implementing planning and controlling costs related to industrial operational activities (Hasan et al., 2019). Planning looks to the future, namely by determining what actions must be taken to achieve the goal, whereas control looks back by calculating what has been obtained and comparing it with the concept that has been prepared. The activities within the company are activities that are mutually related to each other. Failure to implement one activity will have an impact on other activities within a section, or even with other sections within the company (Lubis et al., 2021). So planning and control within the company must be carried out properly and in a structured manner. If this is applied, it is hoped that inefficiencies can be overcome or at least reduced from previous periods. (Nasution & Amalia, 2023).

Management control also has an important role in determining the strategy that the company must carry out to achieve company goals (Sitanggang, 2021). Companies have different management control tools, but the cost budget can be used as one of the company's management control tools. Because the cost budget also has an important role in decision making by company managers. Budgets can be used as data in decision making to support company management control. (Sarah & Sembiring, 2021).

Considering the importance of the company's future, every company must be able to control the costs it intends to incur and reduce inefficient costs in its activities. Therefore, tools are needed to support management in planning and good control of costs. One tool that can be used is a budget. Utilizing the budget as a planning, coordination and monitoring system can be used to respond to challenges within the company. A budget is a detailed concept that is prepared analytically in a quantitative dimension, generally in monetary units, to prove the receipt and use of company resources within a certain period of time, generally one year.

Management control is defined as a series of company activities which include planning, coordinating, communicating, evaluating and decision making, as well as informal processes that aim to increase the efficient and effective use of company resources to achieve company goals. Companies should implement strategies as a framework and foundation for realizing the goals that have been formulated by management. Therefore, companies must determine a system with the aim of managing the activities of a company. The budget is used as a tool used by management to facilitate the activities carried out by the company. (Sarah & Sembiring, 2021).

The operating cost budget is the limit (limit) of operating cost expenditure that can be carried out by the relevant responsibility center. This budget can support the company to increase its capabilities and efficiency in using the company's resources related to the company's operational activities. In order to maintain the sustainability of its life, a company requires careful planning and efficient control in the form of a budget, especially operational costs, so it is important to analyze the operational cost budget in order to improve company control. A good budget must be able to explain activity plans, act as a planning tool, coordination tool, motivation tool, and control tool. Because a budget that is prepared in an adequate manner can influence the success of a company's operational activities.

In companies, activities are carried out which basically operate through the production process, namely producing or creating a product. There are several things that can make a company's production process run effectively and efficiently. One of them is the need for good operational or activity planning, namely operational plans or activities prepared in a budget to achieve effectiveness and efficiency through controlling production costs to make the company's production process run according to plan. To carry out company control over production costs, the company must use the achievement of previously set budget targets or budget reports from previous years, which are usually called historical or past data, to be used as a reference and guideline in determining corrections that can be made for the future. . The production budget is very helpful for planning, coordinating and minimizing the possibility of variances or deviations that will cause the company to no longer operate effectively and efficiently. However, currently the reality that often occurs in companies is that the production budget that has been prepared is not in accordance with the actual standard costs or realized standard costs due to changes and assumptions in certain conditions during the current year (Ramadhan & Nurleli, 2023).

Cost control using static budgets and standard costs. If the company continues to develop, company leaders will no longer face the problem of how to carry out activities in the current year compared to what was carried out in the previous year, but how the implementation in the current year compares with what should have been carried out in that year. At this level of development, leaders need budgets and standards as tools for planning and controlling their activities. Company leaders began to improve their activity planning and control systems by creating static budgets and simple costs. Control costs by using a flexible budget with standard costs. In reality, the realized capacity often deviates from the planned capacity. So, the way of planning and controlling company activities was then improved by developing a flexible budget with standard costs. Flexible budgets are prepared for various levels of planned capacity, so that these budgets provide performance benchmarks that are close to the actual capacity achieved. Cost control by creating responsibility centers and implementing a responsibility accounting system. (Iswadi & Yusita, 2019).

LITERATURE REVIEW

Operational Cost Budget

According to Munandar (2016). "A budget is a work plan expressed quantitatively which is measured in standard monetary units and other units of measurement covering a period of one year. With a budget, management directs the course of the company's conditions." Without a budget, in the short term the company will run without direction, with uncontrolled sacrifice of resources. "The budget is a company's financial planning which is used as a basis for controlling (supervising) the company's finances for the coming period" (Supriyono, 2017). As an action plan, the budget can be used as a tool to control company or division activities within the company by comparing the plans that have been set with the realization that occurs so that the company can achieve company goals. If the actual budget differs from the budget plan, the company must take certain actions to carry out the necessary evaluation of the budget plan.

In a broad sense, costs are sacrifices of economic resources measured in units of money that have occurred or are likely to occur for certain purposes, Mulyadi. (2015). Types of costs based on the nature of their use, consisting of: a. Investment costs, namely costs whose benefits can be used for more than one year. Included in investment costs are building costs, medical equipment costs, non-medical equipment costs. b. Maintenance costs, namely costs that function to maintain or extend the capacity of investment goods. Thus, the classification follows the classification of investment costs (building costs, medical equipment costs, non-medical equipment costs). c. Operational costs, namely the costs required to carry out activities in a production process and which are consumable within a relatively short period of time. Included in operational costs are salary costs, medicine and material costs, food costs, stationery costs, and other general costs (electricity, telephone, water, etc.).

Operational costs are costs that are not directly related to the company's products but are related to the company's daily operational activities (Jusuf, 2017: 33). The final result of the operational budget preparation process is a projected profit and loss report (project income statement). There are two operational cost indicators, namely sales costs and general and administrative costs (Harahap, 2018: 86). Sales costs are all costs incurred for sales activities until the goods are in the hands of consumers, such as shipping costs, taxes related to sales. promotions, and salaries of salespeople. General and administrative costs are costs incurred for activities outside sales activities such as administrative activities, personnel activities and general. For example, salaries for general employees (non-production goods, marketing), water, telephone, taxes, fees and office costs.

Through the definition above, it can be concluded that the operational cost budget is the process of planning, compiling, recording and monitoring the results of the use of costs in accordance with the company's plans and targets in carrying out the company's operational activities.

Cost Control

According to Ahmad et al. (2018) control is management's effort to achieve the goals that have been

implemented by making continuous comparisons between implementation and plans. Mulyadi (2015) revealed that in controlling costs, some use standard costs and others use estimated costs. Through the process of comparing actual results with programs or budgets that have been prepared, management can assess business efficiency and the ability to earn profits from various products. According to the Bushiness Dictionary, Cost Control is the application of an investigation process to detect deviations in actual costs from budget funds. It is an inspection procedure to ascertain the causes of deviations/disputes and to carry out corrective actions between their realization and the predetermined budget. According to Wideman in Iswadi & Yusita (2019) "Cost Control is responsible for tracking the costs/flow of funds against the budget/budget that has been set."

Nasehatun (1999) said that cost control means a series of steps starting from preparing a cost plan to the actions that need to be taken if there are differences between what has been determined (plan) and the actual one. Cost control is an activity to monitor and save expenses so that they are effective and efficient. Cost control can be divided into four steps, as follows:

- a. Find the basics and set standards for costs;
- b. Compare standard costs with actual costs;
- c. Search for and determine which part of the company organization or outside is responsible for any deviations,
- d. Take action to reduce or end deviations

Cost Efficiency

Mardiasmo (2021) defines efficiency as the result of a comparison between physical output and physical input. Where the higher the ratio of output to input, the higher the level of efficiency that will be achieved. Efficiency can also be explained as achieving maximum output using certain resources. Where if the output produced is greater than the resources used, the higher the efficiency that will be achieved.

Efficiency can be defined as the ratio between input and output. In this case, the company is expected to be able to maximize output with the input the company has to achieve the desired profit. Efficiency is a performance parameter which theoretically is one of the performances that underlies the entire performance of an organization. Efficiency is defined as the comparison between output and input, or the amount produced from one input used (Permono in Iswadi & Yusita 2019). Efficiency can also be defined as the ratio between output and input. There are three factors that cause efficiency, namely if the same input produces greater output, with smaller input produces the same output, and with large input produces greater output.

METHOD

This research uses a qualitative descriptive approach by conducting theoretical studies and previous literature reviews. This research discusses and examines previous literature regarding the application of cost budgets as Cost Control in companies and their impact on the efficiency of company operational costs, previous theories and research are collected and analyzed, then the researcher summarizes and links previous theories and research with conclusions and in-depth studies. Theoretical sources are obtained through journals, books and research through accredited journal websites. This research will provide an overview of how to implement cost budgeting as Cost Control through theory and comparing it with previous research. The research methodology used is purely through analysis of existing literature and theoretical studies related to the topics discussed in the research, then the researcher conducts discussions and provides conclusions through theoretical analysis and research results that support to obtain theoretical research results related to the themes discussed. in research.

RESULTS AND DISCUSSION

The Role of Implementing Cost Control in Companies

Cost control is a part of management that focuses more on controlling use and use of costs. One of the cost control programs aims to create efficiency in controlling costs (Gregoire, 2010:491). According to Samryn (2016: 211) in controlling costs you can use flexible budgets and standard costs. The role of Cost Control according to Panglaykin and Tanzil (2008) is:

1. Have Expenditures. By carrying out analysis and synthesis and using comparisons, there is proper supervision and research.
2. Conduct business efficiency research. Expenditures for direct labor costs are easy to find, but if there is no productivity then this cannot be accounted for.
3. Make distribution of overhead costs.
4. Carry out production in economic quantities and in quantities that can be sold
5. Set the sales price
6. Reduce waste or waste.

Internal control is very important and must receive attention in efforts to increase protection of the company's cash flow. One of the steps that must be taken is to control all costs, purchases of goods and sales of goods. Cost Control or Cost Control is a part of the Accounting and Finance Department. The duties and functions of Cost Control are as follows:

1. Responsible for controlling all costs incurred by each department in the company.
2. Prepare the company's budget and budget.
3. Check the prices of goods on the market and approve the purchase of goods by collaborating with the purchasing department.
4. Check purchase orders (PO) and market lists.
5. Ensure that all goods received are in accordance with the price list (contract price with the supplier).
6. Cost control can find out the price of goods in the process of determining the basic price of the goods.
7. Determine the cost per unit (standardization) of goods to the basic price, don't over-cost the budget.
8. Supervising goods in and out (storekeepers) must be accompanied by documents. 9. Create daily flash cost reports.
9. Organize and implement the inventory process every month.
10. Manage which items are profitable and which are unprofitable.
11. Monitor which parts of the activity should be increased or which parts should be reduced.
12. Analyze if additional materials, tools or machines, etc. are needed to support the running of the business.
13. Check if excess cash should be invested.
14. Monitoring and internal audit strategies, procedures and policies have been implemented properly and correctly.
15. Evaluate and measure the level of company performance to find out whether the company is making a profit or a loss

The use of operational costs must be adjusted to existing needs, otherwise it will result in a decrease in profits. Therefore, there is a need for effective and efficient management of all important parts of the company. high operating costs will cause the increase in profits to decrease, likewise if the value of operating costs is low the increase in profits will increase. Sales/marketing costs are all costs incurred and contained within the sales department environment, as well as other costs related to activities carried out by the sales department. Meanwhile, administrative and general costs are all costs that occur within the company's administrative office, as well as other costs that are for overall company administration needs (Munandar, 2016).

Based on the results of research conducted by Iswadi & Yusita (2019) which states that Cost Control has a significant influence on cost efficiency in a company, with cost control, expenses or costs that are not needed or required to support all forms of operations can be minimized and the use of costs can be used appropriately in accordance with the needs and provisions that have been prepared by the company.

Implementation and Control of Operational Cost Budgets on Cost Efficiency in Companies

The budget is one of the control tools in the company. One method that can be used to determine whether the budget has served well as a cost control tool is to use variance analysis which compares the budgeted costs with the actual costs. If there is a deviation in the budget that is greater than what has been budgeted, the factors must be traced after which the necessary corrective action is taken to correct the non-profitable difference. Budget work must be evaluated to avoid errors or events that could be detrimental to the company in the future. Control within the company looks at the need to provide reliable information, protect company assets and records, increase the efficiency of costs and insist on compliance with established policies. Companies want financing and strive to obtain maximum profits. One related perspective concerns the company's operational costs. (Nasution & Amalia, 2023).

The operational cost budget is all planned expenses related to the distribution and sale of company products as well as expenses for running the organization. The operational cost budget consists of marketing cost budget as well as administrative and general cost budget (Rudianto, 2018). Activities within the company greatly influence the implementation of other activities so that the company has no other choice but to try its best so that the implementation of all activities within the company runs as well as possible. Companies must be able to plan well so that the coordination and control carried out can be adequate. Therefore, the budget plays a very important role in controlling operational costs, so that it can minimize waste that will occur (Gusman and Eman, 2016). Operational cost budget analysis is useful for determining the efficiency and control of operational costs that have been carried out by the company. However, deviations often occur in budget preparation.

A budget is a plan that is prepared systematically which covers all activities within the company which are expressed in monetary units and are valid for a certain period of time in the future (Julita, 2014). The characteristics of a budget are that it is stated in monetary units, generally covers a period of one year, contains commitments, the budget proposal is approved by an official higher than the budget implementer and is only changed if there are special circumstances and the causes must be analyzed (Rudianto, 2018). Budgets can function as planning, coordination, communication, motivation, control and evaluation (Supriyono, 2017). Budgets are divided into two types, namely operational budgets including income and cost budgets and financial budgets which include investment budgets, cash budgets and company projections (Rudianto, 2018). The purpose of preparing a budget is: as a formal juridical basis for selecting sources and investment of funds; provide limits on the amount of funds sought and used; detailing the type of funding sources sought and types; rationalize sources and investment of funds in order to achieve maximum results; perfect the plans that have been prepared, because the budget is clearer and more visible; accommodate, analyze and decide on every proposal related to finance (Julita, 2014).

In preparing the budget, conditions must be met, namely: active participation from responsibility center managers is very necessary; the existence of a budget organization; use of accountability accounting information as a tool for transmitting roles in the budget preparation process and as a measure of manager performance in budget implementation (Mulyadi, 2015). The budget plays an important role for the company because the budget will guarantee the implementation of the work plan with the costs planned in the budget. Then the budget prepared by management within a year will bring the company into a certain condition with the resources taken into account. Through the management budget, it will guide the company's path towards better conditions (Mulyadi, 2015). There are two ways to prepare a budget, namely the top down budgeting method, where the budget is prepared absolutely by top level managers and then the top down budgeting method, where lower level managers submit proposals and are approved by top level managers after prior discussion (Nasution & Amalia, 2023).

In today's competitive business world, companies face pressure to increase their operational efficiency while still controlling production costs (Kadim, 2017). An effective production cost control strategy is a crucial factor in maintaining a company's competitiveness and achieving long-term success. The importance of controlling production costs is not only related to company profits, but also to its survival (Tampubolon, 2014). Uncontrolled production costs can reduce profit margins, disrupt financial stability, and can even threaten the company's existence. In an effort to face these challenges, manufacturing companies need to adopt the right approach to managing and controlling their production costs. This approach involves implementing effective strategies to identify, reduce and optimize expenses in the production process. One of the main strategies that can be applied is values analysis and value engineering.

Through this approach, companies can identify product components that do not provide significant added value and take steps to reduce or eliminate them without sacrificing product quality. In this way, companies can optimize the use of resources and reduce waste in the production process. Apart from that, the use of information technology and automation in company operations can also make a major contribution to controlling production costs. By utilizing computer-based manufacturing systems (Computer-Integrated Manufacturing/CIM) and other related technologies, companies can increase the efficiency of production processes, reduce human errors, and optimize the use of production machines and equipment. This can result in increased productivity, reduced labor costs, and avoided reprocessing costs due to production errors. (Muna & Ismaya, 2023).

Based on the results of research conducted by Sarah & Sembiring (2021), management control in companies is aimed at encouraging efficiency and activity in company activities, ensuring that there is no waste in activities carried out and preventing errors in allocating funds, ensuring that all related income with activities accepted and accounted for, and ensuring the accuracy and reliability of the reports produced. By using the operational cost budget as a management control tool, the company can plan appropriate actions in carrying out company activities, carry out evaluations in planning the operational cost budget, and implement the evaluation results to avoid deviations in the next period's budget.

Conclusion

The budget is useful as a control tool in the company. One appropriate method that can be used to determine whether the budget has served well as a cost control tool is to use variance analysis which compares the budgeted costs with their realization. Operational cost budget analysis is useful for determining the efficiency and control of operational costs that have been carried out by the company. Cost control is a part of management that focuses more on controlling use and use of costs. In an effort to increase protection of the company's cash flow, one of the steps that must be taken is to control all costs. Operational cost control as Cost Control in the company plays a role in the process of recording, collecting, allocating and reporting costs which will play a role in control. This role can be realized in the form of a budget, standard costs, recording procedures.

BIBLIOGRAPHY

- Ahmad F. D., Wasilah A. dan Sasongko C. (2018). Akuntansi Biaya Edisi Keempat. Jakarta: Salemba Empat.
- Gregoire, Mary B (2010). Food Service Organizations: A managerial and System Approach. Eight Edition. South-Western, Cengage-Learning
- Gusman, Y. & Eman P.. Analisis Peranan Anggaran Sebagai Alat Pengendalian Biaya Operasional pada Hotel Sempurna Kota Lubuk Linggau. *Jurnal STIE Mulia Darma Pratama*. 1(1): 66 – 84.
- Hasan, M. A., Hasan, A., (2019). The Government Readiness For E-Planning Implementation To Development Planning In Indonesia With Budget Availability As Intervening Variable. *International Journal Of Scientific & Technology Research*. 8(4).
- Harahap S. S. (2018). Analisis Kritis Atas Laporan Keuangan. Edisi Keempat Belas. Raja Grafindo Persada, Depok.
- Iswadi, Adi & Yusita, Helda, (2019). Analisis Penerapan Cost Control Dalam Efisiensi Biaya di PT.Mega Persada Indonesia. *Jurnal Ekuilibrium STIE Triguna Jakarta*. 8(1) 116
- Julita. (2014). Penganggaran Perusahaan, Bandung: Citapustaka Media.
- Jusup A.H. (2017). Dasar-Dasar Akuntansi, Edisi 7. Penerbit Sekolah Tinggi Ilmu Ekonomi (STIE) YKPN. Surabaya.
- Kadim, A. (2017). Penerapan Manajemen Produksi dan Operasi Di Industri Manufaktur. In Jakarta: Mitra Wacana Media.
- Purnama, K. D., Panjaitan, W. J., & Manajemen, P. (2023). Praktik manajemen biaya pada manajemen puncak pada industri manufaktur. 3(1)
- Lubis, P. D. K., Lubis & Nedelea, A. M. (2021). Management Process Administration In Enterprise Resources Planning (ERP) Systems Applications and Products In Data Processing (Sap) In Ptpn Iii Sei Dadap. *Ecoforum Journal*, 10(1). <http://www.ecoforumjournal.ro/index.php/eco/article/view/1203/761>

- Mulyadi. (2015). *Akutansi Biaya*. Edisi Lima. UPP STIM KPN. Yogyakarta
- Muna K. N. & Ismaya M. I. N. (2023). Strategi Pengendalian Biaya Produksi Pada Operasional Manufaktur Yang Efektif. *Sanskara Manajemen dan Bisnis*. 1(3). 197-203.
- Munandar, M. (2016) . *Budgeting* . Edisi kedua. Cetakan Ketiga. Yogyakarta:BPFE
- Nasehatun, Apandi. (1999). *Budget & Control: Sistem Perencanaan dan Pengendalian Terpadu Konsep dan Penerapannya*. Jakarta: PT. Grasindo.
- Nasution N. A. R. & Amalia M. M. (2023). Analisis Anggaran Sebagai Alat Pengendalian Biaya Operasional. *WORKSHEET: Jurnal Akuntansi*. 3(1). 115-122.
- Ramadhan S. F. & Nurleli (2023). Analisis Penerapan Anggaran untuk Meningkatkan Efektivitas dan Efisiensi Pengendalian Biaya Produksi. *Bandung Conference Series: Accountancy*. 3(1). 515-523.
- Rudianto, (2018). *Akuntan Intermediate*, Jakarta: Erlangga
- Samryn, L.M., (2016). *Pengantar Akuntansi*, Jakarta: PT RajaGrafindo Persada.
- Panglaykim dan Tanzil H. (2008). *Manajemen Suatu Pengantar*, Jakarta: Ghalian Indonesia.
- Sarah C. & Sembiring E. E. (2021). Evaluasi Peranan Anggaran Biaya Operasional sebagai Alat Pengendalian Manajemen (Studi Kasus pada PD Lima Motor Garut). *Indonesian Accounting Literacy Journal*. 2(1). 12-25.
- Sitanggang, J.K.F (2021). The Conversion Cycle: Review of Material Requirements Planning (MRP). *Proceedings of the 1st International Conference on Social, Science, and Technology*, ICSST 2021, 25 November 2021, Tangerang, Indonesia. <http://dx.doi.org/10.4108/eai.25-11-2021.2318831>
- Supriyono, R. (2017). *Sistem Pengendalian Manajemen*. Yogyakarta: BPFE.
- Tampubolon, H. (2014). Strategi manajemen sumber daya manusia dan perannya dalam pengembangan keunggulan bersaing.

CHAPTER 4

Implementation of an Interactive Control System as a Management Control Strategy in Solving Problems in Companies

Iskandar Muda Situmorang¹, Liliyani Dwi Larasati Lubis², Iskandar Muda³

^{1,2,3}Universitas Sumatera Utara, Medan, Indonesia

Email:iskandar.situmorang@mikroskil.ac.id

Alexandru-Mircea Nedelea⁴

⁴ Coordinator Club of Asian Studies, Faculty of Economics and Public Administration,
Stefan cel Mare University of Suceava, Romania

Email:alnedelea@yahoo.com

ABSTRACT

The purpose of this article is to discuss and analyze the application of an interactive control system as a management control and problem solving strategy in companies. The management control system is one way for companies to form strategies and become a system that controls company performance. However, each company has different strategies, problems and ways of solving problems. The Interactive Control System is a system that has a positive impact on strategy formation and implementation. This research uses a qualitative descriptive approach by conducting theoretical studies and literature reviews by conducting literature studies and collecting journals via websites and the internet. The research methodology used is purely through analysis of existing literature and theoretical studies related to the topics discussed in the research, then the researchers conduct discussions and provide conclusions through theoretical analysis and research results that support to obtain in-depth research results related to the themes discussed. Interactive control systems are also thought to be one way for companies to solve existing problems in the company.

Keywords: Management Control, Interactive Control System, company strategy, company problems.

INTRODUCTION

In the economic world, the increasingly tight world of competition between companies from year to year requires companies to be able to survive and compete with other companies (Waqqosh et al., 2021). One of the things that companies can do to be able to survive in intense competition is by improving company performance. Because the performance of a company is efficiency in the form of capital, materials, equipment and expertise that can be optimized to produce goods and services for the company. Management control is one of several types of planning and control activities in an organization (Hasibuan, 2022). Every company requires management control, because the system is created to regulate the activities of organizational members through organizational managers so that they are in accordance with the goals desired by the company.

Organizations are a form of social coordination that operates under strict rules and can be identified with relevant boundaries, working on the basis of a relatively sustainable system to obtain results from a common or collective goal (Robbins, 2018). Motivation and direction are certainly needed by organizations consisting of employees and managers to get motivation and to carry out their duties in accordance with the expectations of their leaders. This is important so that employees can be directed towards achieving the goals and expectations of the organization that have been set, so that the actions taken are not different from what has been previously determined (Miskiani & Bagia, 2020).

Every company definitely has goals that must be achieved. These goals are passed down to each part of the company. So that each part of the company has goals that must be achieved in order to achieve the company's goals. Of course, to achieve the goal, a management control system is needed that is created explicitly to support the strategy that has been determined. Basically, the purpose of a management control system (MCS) is to provide information that is useful in the decision-making, planning and evaluation process. With a good management control system, company goals can be achieved. Management control system (MCS) is a manager's process of ensuring that resources are obtained and used effectively and efficiently in an effort to achieve organizational goals (Anthony and Govindarajan, 2018).

The aim of the management control system (MCS) is to provide information that is useful in decision making, planning and evaluation (Widener, in Jolanda & Budianto, 2017). Currently, in the business environment, changes are occurring rapidly, such as changes in customers, technology and competition. This encourages organizations to continuously renew themselves in order to survive and prosper, besides that in the world of complex, fast-changing business competition, and the need to have intensive knowledge of business models drives the need for organizations to better understand the role of performance measurement systems and how MCS can meet their needs. managerial. In achieving this goal, various problems will definitely arise. Problems that usually arise in implementing a management control system are a lack of direction from managers or section leaders, lack of motivation, and individual limitations. Lack of direction means that employees do not know what their organization wants so that employees cannot work optimally, which will have an impact on organizational goals. Motivation problems can also affect the implementation of the management control system, namely the lack of motivation obtained by employees makes them not loyal to the company. So employees act for their personal goals and sacrifice organizational goals. The final problem that can arise is the individual's own limitations, such as a lack of knowledge, training, work experience and stamina in carrying out their duties. (Jolanda & Budianto, 2017).

There are several theories and models that can be used as a reference for implementing a management control system, one of which is using the Four Levers of Control theory. This theory focuses more on innovation and control, which can give the Management Control System the ability to influence strategy. The strength of this model is that in its implementation it cannot be used individually, but is complementary and interconnected, each existing control system cannot stand alone (Ginting et al., 2022). This theory has four Levers of control systems, namely belief system (related to the organization's core values), boundary system (limiting employee behavior to what they cannot do), diagnostic control system (monitoring organizational results and correcting deviations) and interactive control system (two-way communication process between managers and subordinates at various levels of the organization) that work together in order to improve company performance. In this model, management not only focuses on achieving company goals, but also looks for new opportunities and innovations that can produce successful business strategies. The existence of the Four Levers of Control model will definitely help companies

evaluate the implementation of the management control system in the company.

It cannot be denied that in achieving the desired goals various kinds of problems will definitely arise. Problems that often arise are lack of direction from leaders or managers or department heads, lack of motivation and personal limitations (Nisa et al., 2023). Seeing these conditions, Robert Simon in 2000 put forward a theory that became a reference in management control systems, namely the Levers of Control model framework. This model consists of four tools, namely the Belief System, Boundary System, Diagnostic Control System and Interactive Control System which are interconnected, work together and complement each other to control the company. The belief system explains the vision and mission along with the company's goals, the boundary system describes the boundaries that must be obeyed and must not be done, the diagnostic control system monitors organizational results and corrects deviations, and provides a monitoring mechanism, while the interactive control system is a two-way communication process between managers with subordinates at various organizational levels (Lumentut et al., 2023).

According to several previous studies, it can be seen that the application of the Four Levers of Control model is one way to determine how the Management Control System (SPM) is implemented by a company or organization (Felita 2017). Research conducted by previous researchers concluded that there are companies that are still weak in implementing management control systems, especially seen from the application of the Four Levers of Control model. Therefore, the author wants to research how to apply the Four Levers of Control model to the management control system at the Sintesa Peninsula Manado Hotel in an effort to improve company performance.

Company management uses the Management Control System as a tool to build the company's future. The information produced by management accounting is one of management's considerations in designing strategy. Management accounting plays a role in providing answers to questions and predicting future business trends according to data. In this way, it is very helpful for managers to be able to estimate everything, especially when making decisions and making fundamental choices within the organization. Therefore, management accounting information is really needed in strategic planning to produce business strategies that can improve company performance. However, if the implementation of the company's management control system is weak enough, it will trigger deviations.

The Four Levers Of Control framework has been widely used in the field of management control research. Even though it has been 27 years since this theory was discovered, this does not mean it has lost relevance, but in fact it is increasingly being used by researchers. This is proven by having been cited more than 25,000 times in Google Scholar until mid-2022. Research that uses the Four Levers of Control model includes research by Adhitama and Aulia (2017) at the Customs and Excise Education and Training Center showing the results that companies implement all models. Four Levers of Control but it was found that there were obstacles in its implementation. Meanwhile, research conducted by Siwu, Saerang and Tirayoh (2021) entitled Analysis of the Implementation of the Management Control System Using the Four Levers of Control Model at PT TASPEN (PERSERO) Manado Branch Office shows that the implementation of the management control system has gone well because it has met the elements Four Levers of Control, but specifically for the implementation of the belief system, it is still relatively weak. According to several previous studies, it can be seen that the application of the Four Levers of Control model is one way to determine how the Management Control System (SPM) is implemented by a company or organization (Felita 2017). Research conducted by previous researchers concluded that there are companies that are still weak in implementing management control systems, especially seen from the application of the Four Levers of Control model.

Company management uses the Management Control System as a tool to build the company's future. The information produced by management accounting is one of management's considerations in designing strategy. Management accounting plays a role in providing answers to questions and predicting future business trends according to data. In this way, it is very helpful for managers to be able to estimate everything, especially when making decisions and making fundamental choices within the organization. Therefore, management accounting information is really needed in strategic planning to produce business strategies that can improve company performance. However, if the implementation of the company's management control system is weak enough, it will trigger deviations.

In such conditions, strategies are needed to resolve organizational problems that often arise in the implementation of management control systems and can improve organizational performance. Implementing

this problem solving strategy requires a system that can be used to solve the problem, namely the Interactive Control System (ICS). This conceptual study will discuss the role of the Interactive Control System in implementing or implementing company problem solving strategies

LITERATURE REVIEW

Management Control System

Management Control System is a system used by management to influence members of its organization to implement organizational strategies and policies efficiently and effectively in order to achieve organizational goals (Jolanda & Budianto, 2017). MCS is an integral part of management responsibility. This system provides information to managers to assist in making decisions in accordance with company plans and goals. According to Simon in Zuriana (2013), MCS is a procedure or control policy that facilitates organizations to ensure that the expected goals and objectives have been met. Apart from that, according to Anthony and Govindarajan (2018) MCS is a manager's and usually repetitive way of controlling the activities of an organization to implement organizational strategy. The control process is where managers at all levels ensure that the people they supervise implement the intended strategy

One of the important organizational tools to support optimal performance of a company is the need for a management control system (Nani & Safitri, 2021). MCS is defined by (Anthony & Govindarajan, 2018) as a process where managers believe that resources have been obtained and used effectively and efficiently in achieving organizational goals. Furthermore, (Anthony & Govindarajan, 2018) defines MCS as a process where managers influence other organizational members to implement organizational strategies, related to management control activities. (Su & Baird, 2018) divides management control systems into 4 levels, namely: Belief Systems, Boundary Systems, Diagnostic Control Systems, Interactive Control Systems. Four Levers of Control Concept. The four levers of control model according to Simon in Siwu et. al. (2023) consists of four control tools, namely:

1. Belief System

It is a set of explicit organizational definitions that are communicated by senior managers formally and systematically enforced to provide basic values, goals and direction for the organization. Belief systems are various organizational definitions that are explicitly conveyed by senior managers formally and upheld systematically in order to form basic values, goals and direction for the organization. With a belief system, core values will be conveyed so that they can inspire and motivate employees to search, explore, create and carry out efforts related to appropriate actions. In implementing strategy, this system can basically be linked to strategy as perspective. (Queen et al., 2023).

2. Boundary System

It is a formal system that limits acceptable domains or areas of strategic activity for members of an organization. A boundary system or boundary system is a formal system that acts as a domain or area boundary within the acceptable scope of strategic activities by members in the organization. Top managers use boundary systems in order to establish various boundaries such as rules and convey them with actions that employees must avoid. This aims to provide freedom to employees so they can independently provide innovation and achievements in certain previously determined fields (Ratu et al., 2023).

3. Diagnostic Control System

It is a formal feedback system used to monitor organizational results and correct deviations that occur from previously established performance standards. The diagnostic system described by Simons (2000) aims to provide employee motivation when working and provide behavioral adjustments that are still in line with organizational goals. The motivation provided in the diagnostic control system is referred to as a feedback system which formally monitors the results achieved in the organization and then carries out corrections if in fact there are deviations from predetermined performance standards. This system also contains information reports on various important factors that cause success so that managers can focus on the basic directions of the organization and what needs to be monitored. (Ratu et al., 2023).

4. Interactive Control System

It is a formal system used by top managers to regularly and personally involve themselves in the decision-making activities of subordinates. An interactive system or interactive control system is a formal system that is regularly and personally used by top managers who involve themselves in the decision-making activities of subordinates. This system aims to focus attention and emphasize dialogue and learning

through various signals sent by top managers. Basically, an interactive control system shows a picture of the positive pressure of a management control system. This positive pressure is then used to expand the search for opportunities and learning. This system is also intended to help companies look for various alternatives for strategic positioning in a dynamic market (Ratu et al., 2023).

According to Maciariello in Yustien (2012), through MCS efforts are made to unify the objectives of various businesses, organizational and management sub-units consisting of structures and processes. MCS in achieving organizational goals, as stated by Simon (1990), is related to how managers can actually use planning and control systems to guide them in achieving organizational goals. It can be concluded that MCS is an activity that has been determined and is usually carried out repeatedly by receiving feedback in the form of actual performance to achieve organizational goals. MCS is used to collect and report data and evaluate organizational performance. MCS is seen as a tool for implementing company strategy. Simons in Gracia, et al (2016) identified four forms of control systems called levers of control (LOC), namely beliefs, limits, diagnostics, and interactive. The four control systems in business strategy are achieved by combining the four elements of LOC. This means that the strength of these LOC elements in implementing strategy is when they are used together. However, each LOC has different goals.

Interactive Control System (ICS)

Interactive is a form of control system known as LOC. This interactive relates to how top level managers use control systems to centralize information for strategic purposes. Interactive includes intensive use and strong involvement by top and middle managers (Khan et al., 2023). Through the use of interactive, top managers can guide information gathering and manage strategic uncertainty within the company (Gracia, 2016). ICS is a formal system used by top managers in companies to involve themselves regularly and personally in the decision-making process from the lowest to the highest parts of a company. ICS is used to create dialogue and interviews to bridge incoming information from each functional department and profit center of an organization (Ismail, 2014). Managers use ICS to apply learning regarding strategic uncertainty. The use of this performance measurement can guide managers in finding company strategies that suit the organization's needs by increasing organizational learning through dialogue and debate with company members which will then influence the company's strategy development process.

ICS is a formal system used by top managers in companies to involve themselves regularly and personally in the decision-making process from the lowest to the highest parts of a company. ICS is used to create dialogue and interviews to bridge incoming information from each functional department and profit center of an organization (Ismail, 2014). Interactive system or interactive control system is a formal system that is regularly and personally used by top managers involving themselves in the decision-making activities of subordinates. This system aims to focus attention and emphasize dialogue and learning through various signals sent by top managers. Basically, an interactive control system shows a picture of the positive pressure of a management control system. This positive pressure is then used to expand the search for opportunities and learning. This system is also intended to help companies look for various alternatives for strategic positioning in a dynamic market. (Queen et. al., 2022).

METHOD

This research uses a qualitative descriptive approach by conducting theoretical studies and previous literature reviews. This research discusses and examines previous literature regarding the application of Interactive Control Systems as a Management Control strategy for problems in companies, previous theories and research are collected and analyzed, then the researcher summarizes and links previous theories and research with conclusions and in-depth studies. Theoretical sources are obtained through journals, books and research through accredited journal websites. This research will provide an overview of how the application of an Interactive Control System can be a way to overcome company problems and its impact on company performance through theory and comparison with previous research. The research methodology used is purely through analysis of existing literature and theoretical studies related to the topics discussed in the research, then the researcher conducts discussions and provides conclusions through theoretical analysis and research results that support to obtain theoretical research results related to the themes discussed. in research.

RESULTS AND DISCUSSION

Implementation of an Interactive Control System as a Management Control Strategy in a Company

The management control system has a Levers of control framework, there are 4 systems, namely: belief system, boundary system, diagnostic control system and interactive control system. Where the belief system focuses on spreading the company's values and goals, while the boundary system sets the boundaries of acceptable behavior within the company. The diagnostic control system helps management measure and monitor target achievement, while the interactive control system facilitates dialogue and interaction between management and employees to identify and explore new opportunities. Furthermore, all these systems must work together and be integrated (Simons, in Ibrahim and Violita 2023). The four systems must be involved either individually or collectively because each system has a role to play (Barros and Ferreira, 2022). In addition, the 4LOC framework has succeeded in motivating management to improve company performance (Baird et al., 2019).

Levers of control are needed to direct the behavior of all employees in an effort to facilitate organizational learning in order to increase employee knowledge and skills at any time, the impact of which can increase organizational performance (Bandiyono and Augustine, 2019). Through these four dimensions of levers of control, the learning process in the organization will run well and will increase employee abilities and competencies which will have an impact on improving organizational performance (Bandiyono and Augustine, 2019).

According to Faeni et al., (2020) argue that an effective control system relies on the use of the four levers, with the use of limiting levers and enabling levers able to facilitate the two objectives of performance monitoring, namely increasing efficiency and effectiveness and encouraging creativity to improve performance. Che and Rapih (2013) in their research "The Effect of Management Control System on Performance Measurement System at Small Medium Hotels in Malaysia" obtained results which revealed that MCS has a positive correlation with the design of the company's performance measurement system.

Interactive Control Systems are usually used by top managers of a company to apply learning about strategic uncertainty or strategies that are flexible according to the conditions and possible problems the company is facing. When using an interactive control system, managers can also discuss with members of the organization to resolve existing problems, and it is even thought that it can improve the performance of a company. (Jolanda & Budianto, 2017).

The interactive control system, which is a management control system dimension of levers of control, is a formal system that company leaders can rely on to be able to involve themselves in subordinate activities (Henri, 2016). The results of research by Anthony et. al (2023) shows that the relationship between the influence of interactive control systems on company performance is supported. These results confirm that company performance can be influenced by superiors who use levers of control in the interactive control system. Company performance reflects the performance of employees and leaders. The role of leaders in managing and controlling employees certainly influences the company's performance which comes from increasing the performance of the employees themselves. The involvement of leaders in all subordinate activities in the company will increase the sense of appreciation and increase the sense of togetherness which will cause banking performance to increase.

Interactive Control System in Solving Problems in Companies

With an interactive system, the control process can function in the process of discussion, learning and forming new ideas. Interactive control systems are used to stimulate dialogue, face to face and to build information bridges between hierarchical levels, functional departments and profit centers. The diagnostic control system can be made interactive by continuing and continuously providing attention and interest to management. Interactive control systems are used by top management to guide the strategy formation process informally by determining personal involvement, intimacy or closeness to problems, and commitment (Mintzberg in Yuestin, 2012). A system will be classified as an interactive system if top managers report that the system is used frequently personally, regularly and is a priority for both themselves and their subordinates. This system is used in routine meetings held directly with subordinates and other parties to review data and produce action plans (Simons in Yuestin, 2012).

Each control system can be used interactively by senior managers if the system matches the required level of uncertainty (Simons in Yuestin, 2012). Meanwhile, the selection of an interactive control system really depends on four factors, namely:

- 1) technology dependence,
- 2) regulation,
- 3) the complexity of value creation,
- 4) the reality of tactical responsiveness (Simons in Yuestin, 2012).

Top managers must decide which aspects of the management control system will be used interactively and which aspects will be the program. Management control becomes a form of interactive control when business managers use planning procedures and control procedures that actively monitor and intervene in decision-making activities that occur continuously from subordinate parties in a company. Because the interventions carried out will provide opportunities for the top management team to debate and challenge based on basic data, acquisitions and other action plans, the interactive nature of management control demands continuous attention from subordinates operating at all levels of the company. Companies have different types and forms of control systems. Top managers will choose to create an interactive management control system if the existing system collects strategic uncertainty information. (Yuestin, in Jolanda & Budiarto, 2017). There are several reasons managers use interactive control systems, namely:

- 1) Economic, management attention is a scarce and expensive resource;
- 2) Cognitive, each individual's ability to process large amounts of information is limited
- 3) Strategic, related to active learning regarding strategic uncertainty and gathering new action plans (Jolanda & Budiarto, 2017).

Ismail (2014) in his research entitled "Interactive Control System and Strategy to Improve Internal Learning. Case Study in the Creative Industries in West Java" also examined how the role of LOC in MCS influences strategy. Based on hypothesis testing, the results showed that the interactive control system had a positive effect on the strategy process as measured using intended strategy and emergent strategy. Furthermore, Ismail's research results show that both strategy processes have an influence on internal learning.

The results of research by Anthony et. al (2023) shows the supportability of the relationship between the influence of interactive control systems on employee performance. These results confirm that employee performance can be influenced by superiors who use levers of control in the interactive control system. Because, an interactive control system is used to control strategic uncertainty and functions to focus the organization's attention on this uncertainty and as a learning process so that it can quickly encourage new initiatives and strategies (Saputra, et al. 2019). Then this system not only carries out interactive control and has the role of focusing attention, but this system also stimulates search and learning which can produce new strategies to emerge in the company organization. Based on this, this system is able to control the dynamics of a business environment that is full of uncertainty. Thus, leaders have the opportunity to be able to implement strategies that encourage good performance from employees as a shield in facing business dynamics full of uncertainty.

This is in line with what Hery (2019: 128) said that evaluation can be used for the performance results of a company or organization, group or individual, where in the evaluation it will be identified to what extent the organization's goals and objectives have been achieved, and if there are any deviations, then you must find out the causal factors and try to improve them at a later date. The application of interactive control systems can also be seen in the follow-up to changes, whether changes in government regulations or technological developments. Through these activities it can be seen that superiors are always involved in decision making with subordinates. This is in line with what Simon said in Siwu et al. (2021), an Interactive Control System is a formal information system that managers use to involve themselves regularly in decision making with their subordinates so that problems that occur in the company can be prevented and resolved.

CONCLUSION

Management Control System is a system used by management to influence members of its organization to implement organizational strategies and policies efficiently and effectively in order to achieve organizational goals. There are 4 levers of control systems, namely: belief system, boundary system, diagnostic control system and interactive control system. Levers of control are needed to direct the behavior of all employees in an effort to facilitate organizational learning in order to increase employee knowledge and skills at any time, the impact of which can increase organizational performance. In anticipating and

overcoming problems that may occur in a company, you can apply one of the elements of the Management Control System, namely the Interactive Control System which is usually used by top managers of a company to apply learning about strategic uncertainty or strategies that are flexible according to conditions and possible problems that arise. the company is facing. When using an interactive control system, managers can also discuss with members of the organization to resolve existing problems, so that they can improve the performance of a company.

BIBLIOGRAPHY

- Adhitama, S. & Aulia, D. R. (2017). Analisis Penerapan Sistem Pengendalian Manajemen Dengan Model Four Levers of Control di Pusat Pendidikan dan Pelatihan Bea dan Cukai. *Jurnal Informasi Keuangan dan Akuntansi*, 1(1): 35-46
- Anthony M. A., Wediawati B., Setiawati R. (2023). Peningkatan Kinerja Perbankan Berbasis Diagnostic Control System Dan Interactive Control Sistem Melalui Peningkatan Kinerja Karyawan (Studi Pada Bank Jambi). *Jurnal Manajemen Terapan dan Keuangan (Mankeu)* Vol. 12 No. 02, Juni 2023 P-ISSN: 2252-8636, E-ISSN: 2685-9424.
- Anthony, R. N. dan Govindarajan, V. 2018. *Management Control System*. Buku 1 Edisi 11 Jakarta: Salemba Empat.
- Baird, K., Su, S., & Munir, R. (2019). Levers of Control, Management Innovation and Organisational Performance. *Pacific Accounting Review*, 31(3), 358–375. <https://doi.org/10.1108/PAR-03-2018-0027>
- Bandiyono, A., & Augustine, Y. (2019). Organizational Performance As A Mediation On The Effect Of Levers Of Control And Learning Organization On Tax Compliance. *International Journal of Business, Economics and Law–IJBEL*
- Barros, R. S., & Ferreira, A. M. D. S. da C. (2022). Management Control Systems and Innovation: A Levers of Control Analysis in an Innovative Company. *Journal of Accounting and Organizational Change*, 18(4), 571–591. <https://doi.org/10.1108/JAOC-09-2020-0137>
- Felita, J. P. (2017). Penerapan Levers Of Control Dalam Meningkatkan Kinerja Karyawan Pada Pt Kalisari Citra Jaya. *Jurnal Ilmiah Universitas Surabaya*. 6(2)
- Ginting, M., Simbolon, E. B., Wandasari, N., (2022). Establishing A Sustainable Digital Healthcare Company Through Innovation And Digital Transformation Imperative In Indofarma Pharmaceutical Corporation. *Journal of Pharmaceutical Negative Results*, 4149-4158. <https://www.pnrjournal.com/index.php/home/article/view/5296>
- Gracia (2016). Debt Pressure and The Choice of Interactive Control Systems: Effects on Cost of Debt. Skripsi. Universidad Autonoma de Madrid.
- Hasibuan, T. F. H., Meifari, V., (2022). Management Control System of Politechnic Of Health Ministry Of Health Tanjungpinang With The Use Of Digitalization Accounting As A Financial Management System. *Journal of Pharmaceutical Negative Results*, 4208-4214. <https://doi.org/10.47750/pnr.2022.13.S07.527>
- Hery. (2019). *Manajemen kinerja, Edisi pertama*. Jakarta: PT Grasindo, Anggota IKAPI.
- Ibrahim M. M., Violita E. S. (2023) Perancangan Sistem Pengendalian Manajemen Berdasarkan Four Levers of Control pada Start-up (Studi Kasus pada Start-up XYZ). *Jurnal Ilmiah Wahana Akuntansi*. Vol.18, No.1, Hal. 105-127.
- Ismail, Tubagus. (2014). “Interactive Control System dan Strategi untuk Meningkatkan Pembelajaran Internal Studi Kasus Pada Industri Kreatif di Jawa Barat”, *Jurnal Organisasi dan Manajemen*,10 (1), 1-14.
- Jolanda V. & Budianto Y. (2017). Interactive Control System dalam Implementasi Strategi Penyelesaian Masalah Perusahaan. *JIBEKA*. 11(2). 59 – 65.
- Khan, S. I., Kaur, C., Al Ansari, M. S., Borda, R. F. C., & Bala, B. K. (2023). Implementation of cloud based IoT technology in manufacturing industry for smart control of manufacturing process. *International Journal on Interactive Design and Manufacturing (IJIDeM)*, 1-13. <https://doi.org/10.1007/s12008-023-01366-w>
- Lumentut S. J., Alexander S. W., Tirayoh V. Z. (2023). Penerapan Levers of Control Dalam Meningkatkan Kinerja Karyawan Pada PT Kurnia Abadi Kawanua Jaya (Persero) Implementation Levers of Control in Improving Staff Performance at PT Kurnia Abadi Kawanua Jaya (Persero) *Jurnal LPPM Bidang EkoSosBudKum (Ekonomi, Sosial, Budaya, dan Hukum)*. 7(4). 325-334.

- Miskiani, K. A., & Bagia, I. W. (2020). Peningkatan Kinerja Karyawan Melalui Motivasi Kerja Disiplin Kerja. *Prospek: Jurnal Manajemen dan Bisnis*, 2(2), 120-129. Retrieved from <https://ejournal.undiksha.ac.id/index.php/Prospek/article/view/27077/pdf>
- Nani, D. A., & Safitri, V. A. D. (2021). Exploring the relationship between formal management control systems, organisational performance and innovation: The role of leadership characteristics. *Asian Journal of Business and Accounting*, 14(1), 207–224. <https://doi.org/10.22452/ajba.vol14no1.8>
- Nisa, R., Muda, I., & Khaddafi, M. (2023). Empirical Study Of Profit Management With Tax Motivation In Indonesia (Case Study On Consumer Goods Companies Listed On The Stock Exchange). *International Journal of Economic, Business, Accounting, Agriculture Management and Sharia Administration (IJEBAAS)*, 3(1), 55-64. <https://doi.org/10.54443/ijeabas.v3i1.635>
- Puspaningtyas Faeni, D., Puspitaningtyas Faeni, R., Septiyanti, R., & Yuliansyah, Y. (2020). The Role Of Management Control System On Firm Performance. *Talent Development & Excellence*, 12(3s), 1629–1639. <http://www.iratde.com>.
- Ratu M. K., Meiriasari V., Emilda (2022). Penggunaan Levers Of Control Dalam Sistem Pengendalian Manajemen Serta penerapannya Di Indonesia. *Maqdis: Jurnal Kajian Ekonomi Islam - Volume 7, No 2*, Hal. 40-59.
- Robbins, Stephen, P. dan Timothy, A. Judge, (2018). *Perilaku Organisasi*, Edisi Kedua belas, Salemba Empat, Jakarta.
- Saputra, P. H., Bone, H., dan Permatasari, I. 2019. Peran Levers of Control terhadap Hubungan Antara Perencanaan Strategis dan Kinerja UMKM. *Business Innovation & Entrepreneurship Journal* 1(3): 166-174.
- Siwu .S., Saerang .D., Tirayoh .V. (2021). Analisis Penerapan Sistem Pengendalian Manajemen Dengan Model Four Levers Of Control Pada PT TASPEN (PERSERO) Kantor Cabang Manado. *Jurnal Riset Akuntansi* 16(2). 119-126.
- Su, S., & Baird, K. (2018). The role of leaders in generating management innovation. *The International Journal of Human Resource Management*, 29(19), 2758–2779. <https://doi.org/10.1080/09585192.2017.1282533>
- Waqqosh, A., Hasibuan, H., & Soemitra, A. (2021). Analysis Of The Influence Of Gross Domestic Product (Gdp), Exchange and Oil Pricethe World On The State Budget Deficit In Indonesia. *Journal of Contemporary Issues in Business & Government*, 27(5). https://www.cibgp.com/article_12016.html
- Yustien. (2012). Pengaruh Penerapan Sistem Pengendalian Manajemen pada Pusat Pendapatan dan Pusat Biaya terhadap Kinerja Manajerial Rumah Sakit Umum Tipe B di Provinsi Jawa Barat. *Pek bis Jurnal*. 4(1). 44-53
- Zuriana. (2013). The Effect of Management Control System on Performance Measurement System at Small Medium Hotel in Malaysia. *International Journal of Trade, Economics and Finance*. 4(4). 202-208.

CHAPTER 5

Implementation of the Management Control System Function as a Tightness Control System for Employee Performance

Wibisono¹, Sapta Lestari², Iskandar Muda³

^{1,2,3}Universitas Sumatera Utara, Medan, Indonesia

Email: saptalestari94@gmail.com,

Alexandru-Mircea Nedelea⁴

⁴ Coordinator Club of Asian Studies, Faculty of Economics and Public Administration,
Stefan cel Mare University of Suceava, Romania

Email: alnedelea@yahoo.com

ABSTRACT

This research uses a qualitative descriptive approach by conducting theoretical studies and previous literature reviews. This research discusses and reviews previous literature regarding the function of management control systems and tightness control systems on employee performance, theory and previous research are collected and analyzed, then the researcher summarizes and links the theory and previous research with conclusions and in-depth studies. Theoretical sources are obtained through journals, books and research through accredited journal websites. This research will provide an overview of how the management control system and tightness control system function through theory and compare it with previous research. A company must be able to control its human resources in order to help the company realize what the company wants to achieve. The percentage increase in the possibility of achieving company goals depends on how tight the controls are implemented in the company. The tighter the control, the greater the percentage of chances of achieving company goals. Evaluation activities are carried out with the aim of finding out where employee performance has reached in the process of achieving goals and whether there are problems or obstacles in the achievement process. Evaluation can be used for company or organizational performance results, groups or individuals, where in the evaluation it will be identified how much the organization's goals and objectives have been achieved, and if there are deviations, the causes must be found out and tried to improve at a later date. Strict results control involves more detailed and more frequent control. The achievement of tight results control depends on the characteristics of the definition of desired result areas, performance measures, and the amount of incentives provided.

Keywords: Management Control System Function, Control System Tightness, Employee Performance.

INTRODUCTION

With the emergence of the era of globalization in the economy, business continuity is greatly influenced by challenges that come from within and outside the country. Today's companies, especially companies in the service sector that serve thousands of consumers, must carefully consider their business goals and what actions they must take to survive in the fierce competition. To achieve company goals, the first step is to create a strategy (Manik, 2021). Once that is done, the next step is to make a plan about what will be done after that to achieve that goal. Planning and control are joint components in carrying out management functions. A control system is needed to support the achievement of company goals. This system must have the ability to control and control all company operations (Nurlina et al., 2023). The system in question is a system that is responsible for management. Good employee performance cannot be separated from a good control system (. By implementing a management control system that is in accordance with the rules, it will generate positive affection. So that in the company environment employees feel comfortable and safe, and of course this will have an impact on the company's targets in achieving goals that can be carried out well. (Mulawarman et al., 2023).

High competition in the retail industry can be caused by several factors, including slow market growth, high market penetration, and shifts in consumer preferences. In addition, poor customer service quality can be an important factor affecting company reputation and customer satisfaction. To stay relevant in this ever-changing world, retail companies need to take strategic action. Investing in employee training, updating technology systems, improving customer service, and focusing on product excellence and customer experience can be the key to beating the competition and building solid customer loyalty. Willingness to innovate and respond to market changes is the key to success in facing the challenges of high competition and poor quality customer service. (Natalia et al., 2024).

According to (Chandra, 2017) a management control system is used to control strategies so that they are in line with the initial objectives. Professional management is needed to manage it well. Management, which is often referred to as management, cannot run smoothly without control. Control is a very important element in supporting the performance of a company that focuses on service. The process of ensuring that human, physical, and technological resources are allocated holistically to achieve organizational goals is known as management system control.

There are several reasons why a management control system is very important for an employee for formulating and implementing strategies. The management control system is very important for competitive advantage and superior performance for employees, in itself it is used as a tool to make it easier for employees to use all resources, both real and intangible, to compete. Therefore, all employees strive so that performance orientation and business strategy can be reflected in the management control system which is a critical function in the organization. The short-term goal of each company is to achieve a satisfactory level of profit, while the long-term goal is more directed at the existence of the company itself. To achieve the planned goals, the company must have a good management control system (Mahdini, 2019). This is done by the company to make it easier for the company to assess the performance of its employees. Because by assessing company performance, you can find out what things the company should pay more attention to regarding its employees because employees are the spearhead of a company whose role is very important for achieving company goals. (Sari et al, 2022).

Companies that have good management control will find it easier to achieve both short-term and long-term goals compared to companies that do not have adequate management control. Because management control is very important, usually this management control is carried out with a system so that its implementation can run smoothly. The management control system (SPM) is a very important thing in the formal control and feedback system which is intended to monitor organizational results and correct standard deviations from previously determined performance. Management control has become one of the important areas in organizational behavior research, which is in line with growing economic pressures, an uncertain industrial climate, economic crises, and other external environmental conditions such as consumers, levels of competition, markets, suppliers, distributors, as well as public attitudes and government. (Heliani, 2019)

To be able to plan, implement and monitor employee performance activities in a company well, it is

appropriate for the company to implement a management control system as well as possible. In order for the control system to run in accordance with established standards, management must first understand and understand the control system so that it can help management in making decisions (Brian, 2020). A management control system is a system consisting of interconnected subsystems, namely programming, budgeting, accountability reporting, and performance as well as a system of delegation of authority to assist management in an organization or company to achieve strategic goals efficiently and effectively.

LITERATURE REVIEW

Management Control System

In a company, a good management control system will enable organized work practices in accordance with applicable standards throughout the organization, which will produce a mutually supportive control environment in every part of the organization. (Mulyadi, 2016). Management Control System Process The structure and process of the management control system consists of its main elements. Previously, the authors discussed the core elements of system structure, including the different types of responsibility centers and the appropriate methods for planning and controlling the performance of each responsibility center. System control management process, which consists of four steps:

- 1) Programming: Is the process of selecting a program that determines the tasks that must be carried out by the company to implement the established strategy.
- 2) Budgeting: Budgeting is a crucial tool in short-term planning and control, usually within an effective year. The budget should include revenues and costs for the entire organization and each responsibility center.
- 3) Operations and Measurement: Involves program and budget implementation, as well as comparison of actual data with the established budget.
- 4) Reporting and Analysis: This process includes comparison between actual and budget data. At this stage, a budget report is prepared and then analyzed to identify the causes of variations that occur.

Control System Components The basis of management control system procedures is to divert a group of variables towards predetermined goals. Individuals in the organization need to be directed, guided, or given incentives to achieve these goals. There are at least four components that form a management control system (Natalia et al., 2024):

- 1) Tracker (Detector) or Sensor: An observation device that functions to detect or observe activities and measure or indicate activities that need to be controlled.
- 2) Assessor: A tool used to evaluate the results of activities, usually linked to certain standards, and identify activities that cannot be controlled.
- 3) Effector: Components that enable behavior changes to change performance if necessary.
- 4) Communication Network: A system that allows the distribution of information between various related parties

Control Tightness

According to Merchant & Stede (2014) control tightness is something that is considered good, meaning that a high level of employee certainty can be achieved with behavior that is in accordance with the company's wishes. The benefits of any management control system are derived from increasing the likelihood that a company's objectives can be achieved relative to expectations if the management control system is not implemented. These benefits can be explained in relation to the tightness or looseness of control, because the tighter the control, the greater certainty that employees in a company will act in accordance with what the company expects.

How tight or loose the controls are is a decision determined by management. The concept of strict control can be applied to result controls. for example, strict results control can be applied to important performances through detailed budget reviews (line by line) over shorter periods (monthly) and there are many other ways that can influence tight management control. Conceptually, implementing strict, effective controls requires adequate management knowledge about how the control object (result, action, or

personnel/cultural controls) relates to overall organizational goals. (Masitoh et al., <https://www.scribd.com//2017>).

METHOD

This research uses a qualitative descriptive approach by conducting theoretical studies and previous literature reviews. This research discusses and reviews previous literature regarding the function of management control systems and tightness control systems on employee performance, theory and previous research are collected and analyzed, then the researcher summarizes and links the theory and previous research with conclusions and in-depth studies. Theoretical sources are obtained through journals, books and research through accredited journal websites. This research will provide an overview of how the management control system and tightness control system function through theory and compare it with previous research. The research methodology used is purely through analysis of existing literature and theoretical studies related to the topics discussed in the research, then the researcher conducts discussions and provides conclusions through theoretical analysis and research results that support to obtain theoretical research results related to the themes discussed. in research.

RESULTS AND DISCUSSION

Application of Management Control System Functions to Employee Performance

The role of the management control system has now become a benchmark in improving the performance of companies or government agencies. A good management control system starts from the role of good human resources, only reliable and high-achieving resources will become a competitive advantage. A management control system is needed to provide guarantees through the organization's managers to improve employee performance in the company effectively and efficiently. By implementing a management control system in the company, it will enable the company to move forward in supporting productivity. (Pangaribuan et al., 2020).

Management needs to understand and comprehend the control system with the aim that the implementation of the management control system can run in accordance with the established standards so that it can assist management in making decisions. Where the Management Control System is a mechanism formally designed to create conditions that are able to increase opportunities and achieve expectations and obtain desired results (output), by focusing on the goals to be achieved by the organization and the desired behavior of participants (Ulhaq, 2021). Implementing a control system in a company can make the plans that have been prepared more effective. In implementing a management control system, a manager's ability is needed to manage and allocate each company's economic resources effectively and efficiently, which involves interaction between individuals. It is hoped that each different individual's goals can be in line with the company's goals so that the control system established by the company can be implemented well. (Sihotang et al., 2022). The following are the functions of implementing a management control system which is carried out through the following stages:

1. Goal Determination

According to Hinaya (2018), a management control system is a system of planning and control activities in an organization, which is between two activities, namely the formulation or strategy formulation carried out by upper management and task control carried out by lower/operational level management. In implementing a management control system, the aim of increasing high competition in the business world can be done by increasing market share and company development by improving employee performance, determining company goals can be done by implementing certain targets to increase their market share both regionally and national. The company determines goals and targets for carrying out work programs in accordance with its long-term and short-term goals. By determining the initial strategy and goals, the company has goals that will be aligned with the company's employees. (Natalia et al., 2024)

2. Behavioral Emphasis

To prevent undesirable things from happening, it is important to emphasize the company's behavior. In situations like this, employees make a greater contribution to company performance. There is no doubt that there will be significant costs when achieving big goals. Employees must demonstrate a strong orientation to customer needs and preferences, understand the product as a whole, and encourage effective teamwork to increase productivity and job satisfaction. They must also push themselves to be responsible. In handling responsibilities and division of tasks in order to achieve company targets, the company can place employees appropriately so that the tasks carried out by each division can work effectively and productively. To ensure the plan can be implemented well, the company has determined roles and responsibilities from the start, delegates work effectively, maintains communication with the team, and always remembers to work with goals in mind and utilize available resources. (Sihotang et al., 2022)

Management policy in preparing the company budget can use assumptions and predictions that are appropriate to the national and global economic situation. By preparing this budget, it is assumed that the stability of the company's operational activities is well maintained. Company leaders then set a budget for one year. The RKAP (Company Work Plan and Budget) which has been determined by the directors is carried out at the beginning of each annual budget and ends at the end of each fiscal year (Chandra, 2017). The budget preparation carried out in research (Musa, 2013) is evaluating the budget system established by the company periodically according to conditions, past experience and management intuition. Budgets are submitted by each division to be issued by the financial administration section. The budget system in companies is carried out separately per division of each company. The budget that has been approved will later be used as a tool to control the manager's production activities and will be evaluated and analyzed based on the budget. In carrying out financing for each division, it is mandatory to have good cooperation with the finance department, because all financing that occurs in the company is carried out through the finance department. (Natalia et al., 2024)

3. Implementation and Measurement

Management control is a very important process in achieving company goals and ensuring that company resources are used efficiently and effectively. The company must also have a good management control system to maintain its performance and operational continuity. The organizational structure must support the implementation of company plans and goals. The division of responsibility and authority must be clear at all levels of the organization. Implementing strict operational procedures and policies, daily monitoring can be carried out through management information systems and periodic reporting. To improve company performance, companies can use the latest technology to support high competition and employee performance processes. The financial management process must be transparent and in accordance with applicable accounting standards to assess the company's financial performance. Supervision of budgets and financial reports also needs to be intensified. Every work program and budget that has been designed will be monitored. Each monitoring process will be accompanied by the preparation of a report. Therefore, after monitoring activities and budget expenditures, the financial administration section will prepare a report regarding the implementation of planned activities and how much of the budget has been spent.

4. Evaluation and Projections

At the evaluation and projection stage, the company can hold a forum where subordinates can submit suggestions or ideas for improvements, showing the company's commitment to implementing evaluations both at the departmental level and as a whole. Evaluation activities are carried out with the aim of finding out where employee performance has been achieved. in the process of achieving goals and whether problems or obstacles occur in the process of achieving these goals. This is in line with what is said by (Mahulette el al., 2020) that evaluation can be used for the performance results of companies or organizations, groups or individuals, where in the evaluation it will be identified how much the organization's goals and objectives have been achieved, and if If there are deviations, the causes must be

found out and tried to correct them at a later date. With monitoring and evaluation, companies can monitor company performance quickly and accurately. When significant changes occur in market conditions, companies need to revise the plans and strategies that have been made and design new strategies to overcome challenges or take advantage of emerging opportunities. With a management control system in helping companies to adapt, it is necessary to monitor company performance, adapt strategies, provide additional training to improve employee skills to support company goals and carry out information sharing.

Implementation of the Tightness Control System on Employee Performance

In maintaining the survival of a company, a company must be able to control its human resources so that they can help the company realize what the company wants to achieve (Sihotang et al., 2022). Company management must be able to ensure that its employees work in line with company goals, therefore a management control system is needed. According to Merchant & Stede (2014), the reasons why management control is needed in companies can be classified into 3 categories, the first is lack of direction, the second is lack of motivation, and the third is personal limitation.

The percentage increase in the possibility of achieving company goals depends on how tight the controls are implemented in the company. The tighter the control, the greater the percentage of possibility of achieving company goals, conversely the looser the control, the smaller the percentage of achieving company goals Merchant & Stede, 2012). How tightly or loosely the control system is applied by the company is a decision of the main management. The effectiveness of implementing strict controls requires management's understanding of how the controls used by the company (results control, activity control, people control or a combination of these contribute to the achievement of company goals (Merchant & Stede, 2014).

Strict results control involves more detailed and more frequent control. The achievement of tight results control depends on the characteristics of the definition of desired result areas, performance measures, and the amount of incentives provided.) (Merchant & Stede, 2014):

1. Definition of Expected Result Areas (Definitions Desired Result Areas)

According to Merchant & Stede, 2014, for a control system that considers strict results control, the results dimensions must meet the following requirements:

1) Congruence

The results control system may experience problems in conforming performance dimensions with company goals, either because managers do not really understand the company's goals or because the performance dimensions chosen by managers do not reflect the company's actual goals. Therefore, to apply a strict results control system, managers must really know the goals of the company, so they can correctly define performance dimensions.

2) Specificity

The level of strictness of results control also depends on how specifically the performance targets are described. For strict results control, performance targets can be sorted and quantified. For example, for a car dealer, each sales employee must be able to sell 10 cars within 1 month.

3) Communication and Internalization (Communication and Internalization)

For strict results control, performance targets must be communicated and internalized effectively to employees related to achieving these targets. The extent to which goals are understood is influenced by many factors, including the qualifications of the employees involved, the ability to control (controllability) over the area of results being measured, the goals being reasonably achievable (challenging but achievable) and how many employees are involved in the process of achieving the goals.

4) Completeness

Completeness means that the result areas defined in the management control system cover all areas that the company expects to produce good performance and the employees involved have a significant positive impact on achieving goals. When a company cannot overcome the inadequacy of results control, another type of control (action control or people control) must be designed to cover the deficiencies in result control.

2 Performance Measures

Strict control of results also depends on the effectiveness of the performance measures used. In strict results control, all performance measures have high quality. If employees cannot meet these high performance measures, then control of results cannot be said to be strict, because behavioral problems are possible

3. Amount of incentives provided (Incentives Provided)

Results control tends to be tight if the reward involves employees directly and is directly connected to the fulfillment of company goals (the reward is stated explicitly and unambiguously and there is no tolerance that the reward will not be given. For example, if there is an employee who has achieved sales success of 10 car in a month, he must get a bonus, there is no reason for the company not to give the bonus.

Based on the research results of Sihotang et al. (2021) company management control system with clear delegation of authority and responsibility given to each employee so that it can improve employee performance and productivity in the company. . A management control system is a system used by managers to influence employees or company members to implement organizational strategies and policies effectively and efficiently in order to achieve organizational goals. This management control system is a tool used by management to improve the company's managerial performance (Sari et al., 2022). In running a business, a company needs to pay attention to the management control system. As one part of carrying out management functions, planning cannot be separated from control. The management control system itself has the aim of planning, evaluating and making decisions in order to develop and maintain the company's survival. (Natalia et al., 2024).

Conclusion

A company must be able to control its human resources in order to help the company realize what the company wants to achieve. The percentage increase in the possibility of achieving company goals depends on how tight the controls are implemented in the company. The tighter the control, the greater the percentage of possibility of achieving company goals, conversely the looser the control, the smaller the percentage of achieving company goals. Evaluation activities are carried out with the aim of finding out where employee performance has reached in the process of achieving goals and whether there are problems or obstacles in the achievement process. Evaluation can be used for company or organizational performance results, groups or individuals, where in the evaluation it will be identified how much the organization's goals and objectives have been achieved, and if there are deviations, the causes must be found out and tried to improve at a later date. Strict results control involves more detailed and more frequent control. The achievement of tight results control depends on the characteristics of the definition of desired result areas, performance measures, and the amount of incentives provided).

BIBLIOGRAPHY

- Brian, Granger. (2020). a Skills, Techniques And Tips For A Successful Self Help Plan. *Esmeralda Journale*, 1(1). Google Scholar.
- Chandra, R. (2017). Penerapan Sistem Pengendalian Manajemen Terhadap Kinerja Keuangan Pada PT. Indojaya Agri Nusa. *Jurnal Samudra Ekonomi Dan Bisnis*, 8(1), 619-633.
- Heliani (2019) . Pengaruh Sistem Pengendalian Manajemen Terhadap Kinerja Manajerial Dengan Gaya Kepemimpinan Sebagai Variabel Moderating (Penelitian pada Perusahaan BUMN yang ada di Kota Bandung). *Jurnal Aktiva : Riset Akuntansi Dan Keuangan*. 1(1). 38-49.
- Manik, J, Irawati, N (2021). Strategy of Fair Price Valuation with Fundamental Analysis of The Lq 45 Stock Index Case Study On The Indonesia Stock Exchange, 2009 – 2019. *International Journal of Disaster Recovery and Business Continuity*, 12(1), 1747–1758.
<http://sersc.org/journals/index.php/IJDRBC/article/view/37016>
- Merchant KA, Van der Stede WA. (2014). *Management Control Systems: Performance Measurement, Evaluation and Incentives*. 4th ed., Pearson Education;. doi:10.4018/978-1-4666-5011-4.ch008
- Mulyadi. (2016). *Sistem Informasi Akuntansi* (4 ed.). Jakarta: Salemba Empat. Musa, S. H. (2013). *Evaluasi*

- Sistem Pengendalian Manajemen Untuk Meningkatkan Kinerja Manajer Penjualan Pada PT. Hasjrat Abadi Manado. *Jurnal EMBA*, 1(4), 1790-1798.
- Mulawarman, L., J. Jati, R. Ramdani, B. D. Widiyasti, and D. S. I. Putri, (2023). Evaluasi Penerapan Sistem Pengendalian Manajemen Pada PT Sukses Berkah Melimpah. *Journal of Digital Business*. 1(2). 1–9.
- Mahulette, B., Karamoy, H., & Wangkar, A. (2020). Analisis Penerapan Sistem Pengendalian Manajemen Dalam Usaha Meningkatkan Kinerja Manajer Produksi Pada PT. Citra Raja Ampat Canning. *Jurnal EMBA*, 8(4), 1010-1017.
- Natalia Y. F., Kamaratih N. L., Hwihanus (2024). Penerapan Fungsi Sistem Pengendalian Manajemen Terhadap Kinerja Karyawan Pada PT. Andalan Inti Indonesia. *Jurnal Akuntan Publik*. 2(1). 67-75.
- Nurlina, Andiny, P., (2023). Development Strategy for Disadvantaged Regions Based on Leading Sectors in the Eastern Aceh Region. *International Journal of Professional Business Review*, 8(4), e01378-e01378. <https://doi.org/10.26668/businessreview/2023.v8i4.1378>
- Pangaribua R., Hasyim M. A., Chaerudin E. N., Amin K. P. (2020). Peran Sistem Pengendalian Manajemen Pada Prestasi Karyawan Berdasarkan Kinerja Karyawan Di Pt Explorindo. *E-Journal Equilibrium Manajemen* Volume 6, Nomor 2.
- Sari, P. I. P., Jannah, F., & Putri, Y. C. A. (2022). Sistem Pengendalian Manajemen Terhadap Kinerja Karyawan Di Warung Sate Kambing Dan Gule Moro Lego Pak Kuwat Kabupaten Tulungagung. <https://doi.org/10.31219/osf.io/jvutb>
- Sihotang, L., Putri, C. C., Amenda, J., Belisca, A., & Azhari, I. P. (2022). Penerapan Sistem Pengendalian Manajemen Terhadap Kinerja Karyawan pada Pt Nauli Sawit di Kelurahan Bajamas, Kecamatan Sirandorung. *Journal Of Social Research*, 1(6), 597–602. <https://doi.org/10.55324/josr.v1i6.120>.
- Ulfa, M. (2020). Tinjauan Manajemen Pada Unsur Pengendalian Terkait Masalah Etos Kerja di Puskesmas Lappae Kecamatan Tellulimpoe. In *Skripsi: Program Studi Ekonomi Syariah (EKOS) Fakultas Ekonomi Dan Hukum Islam Institut Agama Islam (IAI) Muhammadiyah Sinjai (Nomor)*.
- Ulhaq, Muhammad Zia. (2021). Politik Ekonomi Islam Era Globalisasi. *Amal: Jurnal Ekonomi Syariah*, 2(2). Google Scholar
<https://www.scribd.com/presentation/348568493/PPT-Control-Tightness>
https://www.scribd.com/document/375805657/Control-System-Tightness-SPM?_gl=1*f332l*_gcl_au*ODAxMDc5MjkwLjE3MTY4ODM4MjE

CHAPTER 6

Implementation of Budgeting as Designing and Evaluating Management Control Systems in Government in Indonesia

Chandra Wijaya Nasution¹, M. Amry Rayendra Nst², Iskandar Muda³

^{1,2,3}Universitas Sumatera Utara, Medan, Indonesia

¹Email: Chandra.wijaya182@gmail.com

Alexandru-Mircea Nedelea⁴

⁴ Coordinator Club of Asian Studies, Faculty of Economics and Public Administration,
Stefan cel Mare University of Suceava, Romania

Email: alnedelea@yahoo.com

ABSTRACT

This literature article aims to discuss and analyze the role and application of Budgeting as a Design and Evaluating Management Control System in Government in Indonesia. Management control has an important role in assessing company performance because management control controls the entire company including control of resources, both human resources and equipment resources. Likewise with the budgeting process which also has a very important role in the planning, control, use and evaluation process for the decision making process to carry out an activity or activities. Budgeting describes the process from the preparatory steps required before starting the preparation of the plan to the final step of collecting various information and data, dividing the tasks of planning, implementing and monitoring and evaluating the plan itself. The research methodology used is purely through analysis of existing literature and theoretical studies related to the topics discussed in the research, then the researcher conducts discussions and provides conclusions through theoretical analysis and research results that support the budgeting carried out which can be one of the solutions and strategy as a control management tool in government in Indonesia, where budgeting is not just a planning process but a continuous monitoring and implementation and evaluation process with appropriate systems and outputs based on performance and measurable monitoring starting from the needs planning, allocation and implementation stages. evaluation of the implementation of the budget that has been issued. So that budgeting can be a tool used by the government for systematic control management and is able to support the performance of government organizations.

Keywords: Budgeting, Management Control System, Government.

INTRODUCTION

Management control has an important role in assessing company performance because management control controls the entire company, including control of resources, both human resources and equipment resources. "The management control system is one of the important variables in management accounting literature. Management control in accounting academic literature in recent years tends to still lead to exploratory research and only focuses on conceptualization and development of variable dimensions. So the consequence is that only a few studies have looked at the influence of management control on performance and job satisfaction in companies. Management control also has an important role in determining the strategy that the company must carry out to achieve company goals. Companies have different management control tools, but the cost budget can be used as one of the company's management control tools. Because the cost budget also has an important role in decision making by company managers. Budgets can be used as data in decision making to support company management control. Sarah & Sembiring (2021).

Likewise with the budgeting process which also has a very important role in the planning, control, use and evaluation process for the decision-making process to carry out an activity or activity. Budgeting describes the process from the preparatory steps required before starting the preparation of the plan to the final step of collecting various information and data, dividing the tasks of planning, implementing and monitoring and evaluating the plan itself (Jumita et al., 2018). Regional budgeting procedures have been regulated in accordance with regulation number 33 of the Minister of Home Affairs of 2019 concerning guidelines for preparing the APBD draft for the 2020 fiscal year carried out by the Regional Apparatus Organization Unit (OPD) and the Executive Budget Team. The budget consists of plans, created and implemented in numerical form, expressed in currency and covers all activities. The most important role or thing in the budget is the combination of activities and money.

The public sector budget is in conflict with the private sector budget, where in the public sector the public must be able to provide information or have clear transparency. Budget can be defined as the development and management of strategic planning as activities to be carried out to achieve goals (Afzalia, 2022). In the public sector the aim is to provide excellent services and benefits to the public. Budgets in the public sector have the main function as planning tools, political tools, fiscal policy tools, communication tools, control tools, coordination tools, work evaluation tools, motivation tools, and public space design tools where their existence cannot be ignored by public sector organizations. The preparation of public sector budgets must be shown to be in the public interest and realize public interests, not for personal interests. All activities, whether individually in a group or organization, must start with the first activity and end with the last activity. A series of activities from start to finish is called a cycle. The budget also has various activities which are often called the budget cycle. (Anggraeni et al., 2020).

According to Shafritz and Russel, in the book *Public Sector Accounting* by Indra Bastian (2010), there are six budgeting principles that refer to the latest developments in society, namely:

- (a) democratic, which means that the budget, both in relation to income and expenditure, must be determined through a process that includes as many elements of society as possible, in addition to having to be discussed and approved by the legislature.
- (b) fair, meaning that the budget must be directed optimally for the interests of the people and allocated proportionally to all groups in society according to their needs
- (c) transparent, is the process of planning, implementation and accountability of the state budget which must be known not only by people's representatives, but also the general public
- (d) having high morals, meaning that the management of the state budget adheres to applicable laws and regulations, and always refers to high ethics and morals.
- (e) careful, meaning that the management of the state budget must also be carried out carefully, because the position of resources is limited and expensive. This becomes increasingly important when it is related to the organization's debt elements.
- (f) accountable, meaning that the organization's financial management must be accountable at all times internally and externally to the people

Implementation of the Planning and Budgeting System Redesign Policy (RSPP) is a policy that was rolled out to answer the gap between planning and budgeting. However, planning and budgeting in

Indonesia is still felt to be less effective and less efficient (Madjid., 2020). Not only is the RSPP policy implemented to support the effectiveness of planning and budgeting, but other fiscal policies are also implemented as a form of implementation of the RSPP policy itself: ensuring appropriate and quality budget use in achieving the desired results. One of the fiscal policies implemented is expansionary fiscal policy, where it is assumed that government spending is allocated appropriately to sectoral programs that have a direct impact on society.

The central government and regional governments still do not refer to the grand design of planning and budgeting that has been determined (Surianti M., 2015). Linked to the role of performance-based budgeting in government functions, the budgeting process is basically a medium for determining what services the government will provide and how these services will be financed (Sirait, A.F., 2017). So it is important to link the Government's performance with the budget allocated to achieve that performance. Has the budget been allocated to achieve performance targets, which in theory is the conceptual basis of performance-based budgeting? Two other problems in implementing performance-based budgeting are first, that the preparation of planning and budgeting has not been analyzed using a comprehensive situation analysis (Symond, 2015). Second is the need to improve the structure of performance information so that the relationship between input, output, outcome and impact can be seen (Pratama et al., 2018). These two problems are interrelated. The first problem is a framework for formulating planned performance and its assumptions but has not yet become an important concern. Meanwhile, the second problem is a technical problem related to: definition, structure and logic of performance so that the objectives (output and outcome) are achieved.

LITERATURE REVIEW

Management Control System

According to Adnan and Murhaban (2020), a management control system is a series of systems needed to ensure that everything each employee does remains in line with the company's goals, so the system must be strategized well and precisely. In achieving company goals and assisting management in properly coordinating each task within its scope, proper analysis and planning need to be carried out in order to successfully realize company goals and targets by working together with company personnel (Murhaban & Adnan, 2020, Hasibuan et al., 2022). One of the important organizational tools to support optimal performance of a company is the need for a management control system (Nani & Safitri, 2021). Furthermore, (Anthony & Govindarajan, 2007) defines management control system as a process where managers influence other organizational members to implement organizational strategies, related to management control activities. (Su & Baird, 2018) divides management control systems into 4 levels, namely: Belief Systems, Boundary Systems, Diagnostic Control Systems, Interactive Control Systems.

Budgeting

The budget is a statement about the limitations and allocation of financial resources that will be used by the government in providing assistance and services to improve the social and economic welfare of society. Budgets are the result of compromises between alternative views about the desired size and composition of government activities. (Satrio & Pertama, 2023) According to Schick (2009), budgeting is a reconciliation process in which the Government, Parliament and society are involved in a debate regarding the relative merits of various policy alternatives and how to allocate the resources they have. Budgeting is also a process that regulates government behavior in managing and providing assistance and services to the public, as well as recording and being accountable for the use of public money and the results achieved.

Budgeting is a process or method for preparing a budget (Mardiasmo, 2021). Public sector budgeting is related to the process of determining the amount of funding allocated for each program and activity in monetary units. According to Munandar (2016: 11) budgeting is a plan prepared systematically which covers all company activities expressed in monetary units which are valid for a certain period in the future. Based on the explanation above, it can be concluded that budgeting is a collection of all processes for preparing a budget for plans or activities that have been set systematically for a certain period in financial

terms so as to provide information about all activities in each activity.

According to Mahsun et al. (2015:45) in the Public Sector Accounting book there are four stages of the budget cycle consisting of:

- (a) First, Preparation Stage. This stage can provide direction based on an agency's strategic plan which will be carried out each period, estimating expenditure on the basis of estimated available income. Regarding this issue, what needs to be considered before agreeing to an expenditure estimate is that an accurate income estimate should first be carried out.
- (b) Second, Ratification Stage. The ratification stage is the stage of budget approval. This stage involves quite a political process and is quite heavy. Executive leaders are required to have adequate managerial and political skills, salesmanship and coalition holding. Integrity and high mental readiness from the executive are very important at this stage, because the executive has the ability to have rational arguments for all questions and objections submitted by the legislature.
- (c) Third, Budget Implementation Stage. In the budget implementation stage, the most important things that public financial managers must focus on are the accounting system, accounting information system and management control system. In this case, the public finance manager is responsible for creating an adequate and reliable financial accounting system for planning and controlling the agreed budget, and can even be relied upon for preparing the following year's budget period.
- (d) Fourth, Reporting and Evaluation Stages. This stage is the final stage in the budgeting cycle. At this stage the budget is accounted for in the form of a report and its implementation is evaluated

METHOD

This research uses a qualitative descriptive approach by conducting theoretical studies and previous literature reviews. This research discusses and reviews previous literature regarding budgeting as management control in government and its implications for the performance of government organizations, previous theories and research are collected and analyzed, then the researcher summarizes and links previous theories and research with conclusions and in-depth studies. Theoretical sources are obtained through journals, books and research through accredited journal websites. This research will provide an overview of budgeting in the public sector as management control in government and its implications for the performance of government organizations through theory and comparison with previous research. The research methodology used is purely through analysis of existing literature and theoretical studies related to the topics discussed in the research, then the researcher conducts discussions and provides conclusions through theoretical analysis and research results that support to obtain theoretical research results related to the themes discussed. in research.

RESULTS AND DISCUSSION

Development of the Budgeting System in Indonesia

If you look at its development, the budgeting system in Indonesia can be divided into several phases as follows: (Satrio & Pertama, 2023).

1. Traditional Budgeting (1945-1970)

Management of State Finances uses statutory provisions prepared during the Dutch East Indies colonial administration based on the Transitional Rules of the 1945 Constitution, namely *Indische Comptabiliteitswet/ICW*.

2. Transition Period (1970-2003)

1970/1971 saw a budget divided into development and routine budgets for the first time.

(a) The budget is determined based on the development program which is the goal to be achieved. The manifestation itself takes the form of development projects. Administratively, these projects are outlined in the form of a Project Input List (DIP).

(b) Documents for the routine budget are contained in the Activity List (DIK).

3. Performance Budgeting System (PBS)

The implementation of reforms in the budgeting sector with the implementation of the performance budgeting system is divided into 3 phases to date, namely as follows.

a. Budget Reform I (2003-2010)

Volume I of the reform was marked by the publication of 3 packages of Laws in the field of State Finance, namely (1) Law No. 17 of 2003; (2) Law no. 15 of 2004; and (3) Law no. 1 of 2004. In Law No. 17 of 2003, 3 pillars of budgeting have been formulated, namely: (1) Unified Budget; (2) Performance Base Budgeting (PBB); (3) Medium Term Expenditure Framework (MTEF)

b. Budget Reform II (2010-2020)

Budget reform volume II is marked by strengthening PBB implementation, MTEF reformulation, new RKA-K/L format, monitoring and evaluation of budgeting, implementation of a reward punishment system, implementation of cost standards and the synergy of planning and budgeting.

c. Planning and Budgeting System Redesign (RSPP) (2020-present)

RSPP was carried out to answer various challenges as follows:

1. Central and regional spending programs are not synchronized.
2. Planning and budgeting documents are different.
3. The formulation of Program Nomenclature and Outcomes is normative.
4. Development performance information contained in budget planning documents is difficult to understand

Implementation of Budgeting as Management Control in Government

Management is defined as the science and art of planning, organizing, directing, coordinating and controlling people and things to achieve certain predetermined goals. The function of the budget is as a work guide, as a work coordination tool, and as a work monitoring tool. So it can be seen that the budget is very closely related to management, especially those related to planning, coordinating and controlling. The budget is one of the management control tools to help carry out its functions. Because the budget is only a tool for management control, even though a budget plan has been prepared very well and is very perfect, management control is still needed. A good and perfect budget plan does not necessarily mean that its realization will also be good and perfect, without being managed by skilled and talented management. Budgeting has a very important role in the process of planning, controlling, using and making decisions to carry out an activity or activities. Budgeting describes the process from the preparatory steps required before starting the preparation of the plan to the final step of collecting various information and data, dividing the tasks of planning, implementing and monitoring and evaluating the plan itself. (Anggraeni et al., 2020).

Management control is defined as a series of company activities which include planning, coordinating, communicating, evaluating and decision making, as well as informal processes that aim to increase the efficient and effective use of company resources to achieve company goals. Companies should implement strategies as a framework and foundation for realizing the goals that have been formulated by management. Therefore, organizations must determine a system with the aim of managing the activities of an organization (Silvana, 2021: 279; Etti, 2021: 279). The budget is used as a tool used by management to facilitate activities carried out by government organizations. In Law No. 17 of 2003, 3 pillars of budgeting have been formulated as a budgeting approach in Indonesia.

1. Integrated Budgeting (Unified Budget)

Integrated budgeting is the preparation of an annual financial plan that is carried out in an integrated manner for all types of expenditure to carry out government activities based on the principle of achieving efficient allocation of funds

2. Medium Term Expenditure Framework (MTEF)

KPJM is a policy-based budgeting approach with decision making that has budget implications over a period of more than one budget year.

3. Performance Based Budgeting (PBK)/ Performance Based Budgeting (PBB)

PBK is the preparation of a budget that is carried out by taking into account the relationship between funding and the expected output, including efficiency in achieving these results and output. (Satrio & Pertama, 2023)

The budget preparation system applied in organizations uses this budget because of the uncertainty that may be faced in the future so that budget preparation becomes important as a form of management control, especially regarding funds spent by an organization. The budget issued is in accordance with previously prepared plans and estimates that adapt to current conditions. So the budget preparation process is a step that can facilitate and become a reference in the movements and services carried out by the organization. (Jati et al., 2023). The Unitary State of the Republic of Indonesia is a country whose management adheres to a decentralized system. It is divided into central government and local government. The central government consists of ministries and agencies. Regional government consists of temporary government and district or city government. The central government budget is known as the State Revenue and Expenditure Budget (APBN). At the regional government level, the budget is known as the Regional Revenue and Expenditure Budget (APBD). In essence, the budgeting process in central and regional governments has the same cycle. Starting from planning, determining, implementing, reporting, monitoring and accountability.

Indonesia is a large and vast country that has been independent for 75 years. As a dependent country, Indonesia has a constitution that regulates how this government is run. Therefore, the budgeting process has been regulated in the Indonesian constitution. The point is that the budgeting process in Indonesia is beneficial to the public sector, namely:

- a) All activities can lead to achieving common goals
- b) Can be used as a tool to assess mutual profits and losses
- c) Can motivate employees
- d) Incur certain responsibilities on employees
- e) Avoid waste and unnecessary payments
- f) Resources such as labor, equipment and funds can be used as efficiently as possible
- g) Educational facilities for managers (Yuhertiana et. al., 2021).

According to Mahsun et al. (2015:45) in the Public Sector Accounting book there are four stages of the budget cycle consisting of the preparation stage which provides direction based on the strategic plan of an agency which will be carried out each period, estimating expenditure based on existing income estimates, ratification is the stage of ratifying the budget, p. The most important things that need to be focused on in the budget implementation stage, which must be focused on the financial manager, are the information system in accounting and the management control system and the reporting and evaluation stages in the budgeting cycle where the budget is accounted for or recorded in the form of a report and then its implementation is evaluated. Implementation of guidelines, technical instructions for planning and preparation APBD requires guidelines for the preparation and principles of budgeting.

Budgeting as Management Control on the Performance of Government Organizations

Proper planning and budgeting means more measurable and sequential performance of prioritized performance indicators (impact), programs (outcomes) and activities (output). Proper also means planning and budgeting must be realistic by considering budget availability. The ideal condition is accountability, meaning that planning and budgeting have clear targets and people in charge. And the last one is transparent, which can be interpreted as making it easier for the public to access planning and budgeting through National Medium Term Development Planning, Strategic Planning, Government Activity Planning and APBN documents. To achieve this goal, three main pillars of planning and budgeting reform were developed, namely: aggregate fiscal discipline, allocative efficiency and operational efficiency. The Indonesian government has committed to implementing a performance-based budgeting pilot project with a medium-term perspective in six (6) state ministries/institutions in the early stages of 2009. (Olfah et. al., 2023).

In the government sector, matters related to budgeting are regulated through regulations from the Minister of Finance as the state general treasurer. Based on Minister of Finance Regulation (PMK) Number 208/PMK.02/2019 concerning instructions for preparing and reviewing work plans and budgets for state ministries/institutions (RKA-KL) and ratifying the budget implementation checklist (DIPA), RKA-KL is a financial plan document annual K/L prepared based on the K/L budget section. The work plan and budget at

the work unit level is called RKA-Satker which contains performance plans, details of expenditure, income targets, as well as advanced forecasts of spending plans and income targets for the work unit. The preparation of the RKA-KL refers to the integrated budgeting system approach, performance-based budgeting (PBK), and the medium-term expenditure framework. PBK can clearly show the link between funding allocation and expected performance and pay attention to efficiency in achieving performance (Ministry of Finance of the Republic of Indonesia 2019). This approach is different from the traditional budgeting approach or what is usually called line item budgeting. The line-item budgeting approach is structured based on organizational functions and is oriented towards organizational input, generally by increasing the budget in stages. The indicator of success is measured by the ability to absorb the budget alone, therefore this budgeting is considered less accountable (Farwitawati, Suroto, and Hadiyati 2016)

According to Mardiasmo (2021) Budgeting has several main functions as follows:

1. Budget as a Planning Tool: formulating policy goals and objectives to be in accordance with the established vision and mission, planning various programs and activities to achieve organizational goals and planning alternative sources of financing, allocating funds to various programs and activities that have been prepared, determining performance indicators and level of strategy achievement.
2. Budget as a Control Tool: The budget provides a detailed plan for government revenues and expenditures so that spending can be accounted for to the public. Without a budget, the government cannot control wasteful spending. Public sector budgets can be used to limit executive power.
3. Budget as a Fiscal Policy Tool: The budget is used to stabilize the economy and encourage economic growth. Through the public budget, the direction of the government's fiscal policy can be known, so that economic predictions and estimates can be made.
4. Budget as a Political Tool: The budget is used to decide priorities and financial needs, namely as a form of executive and legislative commitment to the use of public funds for certain purposes. Therefore, making a public budget requires political skills, coalition building, negotiation skills and an understanding of the principles of public sector financial management.
5. Budget as a Coordination and Communication Tool: The public budget is a coordination tool between departments, visible when preparing the budget. A well-prepared public budget will be able to detect inconsistencies in a work unit in achieving organizational goals.
6. Budget as a Performance Measurement Tool: The budget is a form of commitment from the budget holder (executive) to the authority (legislature). Executive performance will be assessed based on achieving budget targets and budget efficiency. The performance of public managers is assessed based on what has been achieved in relation to the predetermined budget.
7. Budget as a Motivation Tool: Budgets can be used as a tool to motivate managers and staff to work economically, effectively and efficiently in achieving predetermined organizational targets and goals

A key component of planning is a budget which is an entity's future financial plan that identifies the goals it wants to achieve. A budget is a program that is narrated quantitatively in monetary units over a period of time which is usually called a budget per year. Meanwhile, a process of determining the role of each manager in implementing a strategy or program is called budgeting. (Jati et al., 2023) This budget is generally made in a country's monetary units or can also be expressed in units of goods and/or services that are generally used. The budget is an organization's financial planning which is used as a basis for financial supervision for the coming period (Supriyono, 2017). Regarding usefulness, it was stated that budgets have several benefits, including budgets forcing managers; to carry out planning by looking at past events as a whole; anticipate problems; as well as formulating policies for the survival of the entity (Mowen and Hansen 2017). Budgets also provide information that can be used to improve the quality of decision making by looking at past events as well as predicting future events. Budgets and budget control are key to planning and control in the public sector. This is reinforced that the public budget is an important management tool for planning and control, demonstrated by financial expressions, regarding objectives, costs, actions, funded from income, evaluation of results and economic efficiency (Biswan & Kusumo, 2021).

Based on the theory and explanation, it can be concluded that the budgeting carried out can be one of the solutions and strategies as a management control tool in the government in Indonesia, where budgeting is not just a planning process but a continuous monitoring and implementation process as well as evaluation with systems and outputs. appropriate performance-based and measurable monitoring starting from the

needs planning stage, allocation and evaluation of the implementation of the budget that has been issued. So that budgeting can be a tool used by the government for systematic control management and is able to support the performance of government organizations.

CONCLUSION

The budget is one of the management control tools to help carry out its functions. Because the budget is only a tool for management control, even though a budget plan has been prepared very well and is very perfect, management control is still needed. A good and perfect budget plan does not necessarily mean that its realization will also be good and perfect. Management control system and reporting and evaluation stages in the budgeting cycle where the budget is accounted for or recorded in the form of a report and then its implementation is evaluated. Implementation of guidelines, technical instructions for planning and preparing the APBD requires guidelines for the preparation and principles of budgeting. The budgeting carried out can be one of the solutions and strategies as a management control tool in the government in Indonesia, where budgeting is not just a planning process but a continuous monitoring and implementation and evaluation process with appropriate systems and outputs based on measurable performance and supervision. starting from the needs planning stage, allocation and evaluation of the implementation of the budget that has been issued. So that budgeting can be a tool used by the government for systematic control management and is able to support the performance of government organizations.

BIBLIOGRAPHY

- Aditya Agung Satrio dan Widyaiswara Ahli Pertama (2023). Penganggaran Sektor Publik: Teori dan Implementasi Di Indonesia. Pusdiklat Anggaran dan Perbendaharaan. Kementerian Keuangan.
- Afzalia, I. F. N., Sagala, S. H., (2022). Profit Planning and Human Factors In Budgeting In Pharmaceutical Corporation. *Journal of Pharmaceutical Negative Results*, 2912-2917. <https://doi.org/10.47750/pnr.2022.13.S08.363>
- Anggraeni, C., Erina, L., Effendi, S. (2020). Penerapan prinsip-prinsip anggaran publik di organisasi publik di era pandemi COVID-19. PESIRAH: Jurnal Administrasi Publik, 1(1), 1-11, doi: 10.47753/pjap.v1i1.9
- Bastian Indra, (2010). Akuntansi Sektor Publik Suatu Pengantar Edisi Ketiga, Jakarta: Erlangga
- Biswan A. T. & Kusumo D. P. (2021) Penajaman Peran Penganggaran Sektor Publik Sebagai Alat Perencanaan Dan Pengendalian. JAS (Jurnal Akuntansi Syariah). 5(1). 58-77
- Direktorat Jenderal Anggaran Kementerian Keuangan RI: Sumadiyah T Olfah, Achmad Zunaidi & Risca Ardhyaningtyas (2023). Performance Information of The Ministry of Health Based on Planning and Budgeting Redesign. *Jurnal Anggaran dan Keuangan Negara Indonesia* Vol. 5 No. 1.
- Farwitawati, Reni, Bambang Suroto, dan Hadiyati Hadiyati. (2016). Analisis Implementasi Anggaran Berbasis Kinerja Pada Pemerintahan Kabupaten Siak Provinsi Riau". *Jurnal Ilmiah Ekonomi dan Bisnis* 13 (2), 208-228. <https://journal.unilak.ac.id/index.php/JIEB/article/view/853>
- Hansen, Don R. dan Mowen, Maryanne M. (2017). Managerial Accounting. Buku Jilid 2 Edisi 8. Jakarta: Selemba Empat.
- Hasibuan, T. F. H., Meifari, V., (2022). Management Control System of Politechnic Of Health Ministry Of Health Tanjungpinang With The Use Of Digitalization Accounting As A Financial Management System. *Journal of Pharmaceutical Negative Results*, 4208-4214. <https://doi.org/10.47750/pnr.2022.13.S07.527>
[https://djpb.kemenkeu.go.id/direktorat/ppkblu/id/data-publikasi/artikel/57-bagaimana-pendekatan-penganggaran-berbasis-kinerja-pbk-diimplementasikan-agar-meningkatkan-kualitas-anggaran-publik.html\(2014\)](https://djpb.kemenkeu.go.id/direktorat/ppkblu/id/data-publikasi/artikel/57-bagaimana-pendekatan-penganggaran-berbasis-kinerja-pbk-diimplementasikan-agar-meningkatkan-kualitas-anggaran-publik.html(2014))
- Jati J. L., Fadli M. N., Wardhana H., Cahyadi I. (2023). Sistem Pengendalian Manajemen sebagai Kunci Peningkatan Kinerja pada Perusahaan Penyedia Layanan Internet PT. Benknet. *Jurnal Manajemen Dan Bisnis*, 5(1). <https://doi.org/10.30812/target.v5i1.2888>.
- Junita, A; Erlina; Abubakar, E; Abdullah, S; (2018). Influence of budget participation and leadership style against rebudgeting on work unit of apparatus, *JBRMR*, Volume 13 Issue 02, 272-282 <https://doi.org/10.24052/JBRMR/V13IS02/ART-25>.

- Kementerian Keuangan RI. (2019). Peraturan Menteri Keuangan Nomor 208/PMK.02/2019 Tentang Petunjuk Penyusunan Dan Penelaahan Rencana Kerja Dan Anggaran Kementerian Negara/Lembaga Dan Pengesahan Daftar Isian DIPA. Jakarta: Kementerian Keuangan Republik Indonesia.
- Madjid N (2020). Redesain Sistem Perencanaan Penganggaran: Tantangan Mewujudkan Perencanaan dan Penganggaran yang Efektif dan Efisien. Simposium Nasional Keuangan Negara, 2(1), 1075-1095. Retrieved from <https://jurnal.bppk.kemenkeu.go.id/snkn/article/view/612>
- Mahsun, M., Sulistiyowati, F., & Purwanugraha, H. A. (2015). Akuntansi Sektor Publik. Edisi Ketiga Cetakan Kelima. Yogyakarta: BPFE-Yogyakarta
- Mardiasmo, M. B. A. (2021). Akuntansi Sektor Publik-Edisi Terbaru. Penerbit Andi.
- Munandar, M. (2016). Budgeting. Edisi kedua. Cetakan Ketiga. Yogyakarta:BPFE.
- Murhaban, & Adnan. (2020). Sistem Pengendalian Manajemen. Lhokseumawe: SEFA BUMI PERSADA.
- Nani, D. A., & Safitri, V. A. D. (2021). Exploring the relationship between formal management control systems, organisational performance and innovation: The role of leadership characteristics. *Asian Journal of Business and Accounting*, 14(1), 207–224. <https://doi.org/10.22452/ajba.vol14no1.8>
- Olfah S. T., Zunaidi A., & Ardhyaningtyas R. (2023) Informasi Kinerja Kementerian Kesehatan Berdasarkan Redesain Perencanaan Dan Penganggaran. *Jurnal Anggaran dan Keuangan Negara Indonesia* Vol. 5 No. 1
- Pratama, N. D., Abdurahim, A., & Sofyani, H. (2018). Determinan Efektivitas Implementasi Anggaran Berbasis Kinerja Dan Penyerapan Anggaran Di Pemerintah Daerah. *Jurnal Reviu Akuntansi dan Keuangan*, 8(1), 9. <https://doi.org/10.22219/jrak.v8i1.23>
- Sarah C. & Sembiring E. E. (2021). Evaluasi Peranan Anggaran Biaya Operasional sebagai Alat Pengendalian Manajemen (Studi Kasus pada PD Lima Motor Garut). *Indonesian Accounting Literacy Journal*. 2(1). 12-25
- Schick, A. (2009). *Evolutions in Budgetary Practice* (1st ed.). OECD. www.sourceoecd.org/governance/9789264060876
- Sirait, A.F. (2017). Kajian Asimetri Informasi Dalam Penentuan Alokasi Anggaran." *Jurnal Anggaran dan Keuangan Negara Indonesia (AKURASI)* 1.1 (2017): 13-13. Symond, D. (2015). Kajian Perencanaan Dan Penganggaran Kesehatan Di Dinas Kesehatan Kota Padang Tahun 2014. *Jurnal Kesehatan Masyarakat*, 2(1), 116–123
- Su, S., & Baird, K. (2018). The role of leaders in generating management innovation. *The International Journal of Human Resource Management*, 29(19), 2758–2779. <https://doi.org/10.1080/09585192.2017.1282533>
- Supriyono, R. (2017). Sistem Pengendalian Manajemen. Yogyakarta: BPFE.
- Surianti, M. (2015). The Implementation of Performance Based Budgeting In Public Sector (Indonesia Case: A Literature Review). *Research Journal of Finance and Accounting*. 6(12).
- Symond, D. (2015). Kajian Perencanaan Dan Penganggaran Kesehatan Di Dinas Kesehatan Kota Padang Tahun 2014. *Jurnal Kesehatan Masyarakat*, 2(1), 116–123.
- Yuhertiana, I., Suhartini, D., & Tannar, O. (2021). Comparing Indonesia and Malaysia public budgeting process. 5th International Seminar of Research Month 2020. NST Proceedings. pages 232-240. doi: 10.11594/nstp.2021.0936

CHAPTER 7

Implementation of Result Control and Action Control to Improve Company Performance

Selvy De Balqis¹, T. Khairunnisa², Iskandar Muda³

^{1,2,3}Universitas Sumatera Utara, Medan, Indonesia

Email: sdbalqis@gmail.com

Alexandru-Mircea Nedelea⁴

⁴ Coordinator Club of Asian Studies, Faculty of Economics and Public Administration,
Stefan cel Mare University of Suceava, Romania

Email: alnedelea@yahoo.com

ABSTRACT

The purpose of this article is to discuss and analyze the role and application of Result Control and Action Control in companies and their impact on improving company performance. Researchers conducted theoretical studies and previous literature reviews. In this research, we will also examine previous research which provides an overview regarding the implementation of Result Control and Action Control in companies and their impact on improving company performance. This research uses a qualitative descriptive approach by conducting theoretical studies and literature reviews by conducting literature studies and collecting journals via websites and the internet, then researchers conduct discussions and provide conclusions through theoretical analysis and research results that support to obtain good theoretical research results. related to the themes discussed in the research. Through the results of theoretical studies and literature reviews, results were found with the conclusion that a good Management Control System will be obtained if the company is able to carry out the four existing types of management control, namely action control, result control, personnel control, and cultural control. Result control (RC) has a significant influence on company performance, if the company's efforts in evaluating the quality of products and services that will be provided to consumers are optimal. Through the implementation of action control, companies can control and influence the attitudes and behavior of employees to be responsible for existing work, monitoring actions that should not be carried out so that employees do not deviate from the established rules.

Keywords: Result Control, Action Control, Improve Company Performance.

INTRODUCTION

In the development of this era of globalization, business competition is increasingly developing, namely modernization within a company. Competition in the business world is also now getting tighter, companies are starting to enter a different business environment than before, now the market is not only being entered by domestic competitors but has been visited by various foreign competitors. Apart from the positive impacts brought by this era of globalization, there are also negative impacts that affect companies, namely in this era of globalization companies that do not have a management control system will be unable to compete with companies that have a good management control system, therefore companies are required to have a system. management controls that are well organized so that the company is not left out. (Hasibuan, 2022)

In the business world, management control systems play an important part in keeping things running in this uncertain climate. Management control is used to collect and use data to assess the performance of existing resources, such as humans, finance, machines. In the world of small and large businesses, it is necessary to implement a management control system. The management control system is implemented to stimulate individuals in the organization and promote goals. In a company HR (Human Resources) is a very important role, which is the basic foundation for a company. If a company cannot handle its human resources well, then the company cannot stand firmly and will easily fall (Agustin et al., 2021).

To maintain the company's sustainability in the future, it is necessary to have the right strategy and position the company in good business competition. However, just relying on a good strategy alone is not necessarily able to produce success for the company if it is not balanced with good implementation of the strategy. In implementing a business strategy, the company must pay attention to the performance of its employees and employees must understand well the strategy that will be implemented to achieve the company's goals. Therefore, guidance and control is needed from the manager to each employee and not only providing strategies, in designing and implementing business strategies, the company must also exercise control and must understand the key variables needed to maintain and support the success of the strategy. To ensure the success of this strategy, it is necessary to implement a good management control system and also appropriate human resources. (Djasmin, 2019).

In an effort to maintain the quality of human resources, the company needs to carry out good management control, of course this will affect the quality of performance that the company will achieve. Sandanafu and Tjokro (2017) in their research revealed that the implementation of a management control system can influence company performance. The results of this research indicate that the better the implementation of the management control system, the better the company's performance. The management control system is a tool for managers in order to build the company's vision and mission. Management control systems can also be used to control the behavior of managers and employees so that they remain focused and consistent with the organizational strategy and goals that have been set at the beginning (Merchant & Stede, 2014). The management control system (tools of control) consists of four forms, including results, action, personnel, and cultural control (Merchant & Stede, 2014).

In the theory of Merchant & Stede (2014), result control is a control system that focuses on the results achieved by employees in achieving organizational goals. Results control involves rewarding employees who have good results by providing incentives for their employees' performance. However, in reality, results control cannot always be used effectively by companies. According to Merchant and Stede (2014), there are three factors so that result control can be carried out effectively, namely that the company must set targets to be achieved, employees can be responsible for the specified targets, and the company must be able to measure the achievement of the targets that have been determined. The practice of results control consists of four stages, namely first, the company must be able to determine the results clearly so that employee work becomes more focused. Second, there are standards in evaluating employee performance.

Result control has an effect in line with company performance. This indicates that result control is effective in improving performance. However, the results of this research are not in line with the results of research conducted by Sani and Novita (2018), where result control does not affect company performance. This is because employees still cannot experience the implementation of results control carried out by the

company in improving company performance. Third, setting the right goals or targets, so that employees have a reference in providing results that are in line with company goals. Fourth, giving rewards through a reward and punishment system. Giving rewards is a positive form of reinforcement and punishment is a negative form of reinforcement to produce output. Employees are expected to be able to develop and encourage their potential to be able to behave in such a way as to avoid situations that are not in accordance with the company's expectations. (Santy & Novita, 2020).

LITERATURE REVIEW

Management Control System

Management control system is broadly defined as everything that managers must do to help ensure that all organizational strategies and plans can be implemented properly. The management control system is very important in an organization because if there is a failure in management control it will have a bad impact, namely large financial losses, damage to reputation, and may even bring failure to the organization (Merchant, & Stede 2014). In implementing this management control system, managers need several approaches that aim to monitor results with the aim of ensuring achievement (Su, et al., 2017).

According to Anthony and Govindarajan, management control is a process carried out by managers to influence members in the organization to implement existing strategies (Puspitasari & Rachmawati, 2018). Of course, an organization has a strategy, if the organization has a control system then the strategy can be implemented in accordance with the organization's goals. This management control system functions to help managers run the organization in accordance with predetermined strategies and goals. According to Amirullah, control is useful for knowing whether strategies in the organization have been implemented (Puspitasari & Rachmawati, 2018).

The management control system can solve three main problems for members of a business entity, namely: lack of direction, motivational problems, and personal limitations. Lack of direction or not knowing occurs because employees do not know what the company expects them to do so they cannot contribute properly to meeting the goals of the business entity. The second problem, namely motivational problems or unwillingness, arises when employees understand what they are expected to do but the goals between the employee and the company are not aligned so that the employee acts according to his own wishes and ignores the interests of the business entity. The final problem is personal limitations or inability to occur when employees know and understand the goals of the business entity, but they are not able to do it well because there are several other limitations so that the resulting performance cannot be optimal. Agustin et al. (2021).

Forms of Management Control Systems

According to Merchant & Stede (2014), the elements of a management control system are divided into four, namely (Wahyuningtiyas et al., 2021):

1. Result control is a form of control that is directly aimed at controlling the behavior of an employee at various levels of a business entity or organization.
2. Actions control is control related to certain actions carried out by employees in the organization whether they are useful or not.
3. Personnel Control is control that aims to gather workers' awareness naturally to complete their respective jobs.
4. Culture Control is control intended to build a social climate between groups that urges workers to act in accordance with the standards and rules that apply in a business

Action Control

Action control is a form of direct management control system because it is oriented to the actions carried out by a person. This control aims to ensure that the actions taken by employees are in accordance with the interests and objectives of the business entity. In general, action control is used and considered

beneficial for the business entity if superiors or leaders know what actions are profitable and what actions are considered unprofitable for the business entity (Merchant & Stede in Djasmin, 2019). According to Merchant & Stede in Agustin et al. (2021) Action control is control that we carry out from the beginning of the process to the end of a process in an organization's activities, so that the ongoing process complies with the rules or regulations. Action control has four basic forms, namely behavioral constraints, preaction review, action accountability and redundancy.

Results Control

Result control is a control whose main focus is on the final results that a company wants to achieve and is considered the most effective in overcoming employee motivation problems. This control can also be interpreted as the expected results from employees or can be said to be a measurement of performance. Employee behavior can be controlled by providing rewards for employees who can produce results as expected, and providing punishment for employees who cannot achieve the expected results. (Merchant & Stede in Djasmin, 2019). Result control is control that focuses on the results obtained from actions taken by employees at various levels of the organization (Satria, 2018). Result control is an indirect form of control because it does not explicitly focus on employee actions. The system used in result control is usually called pay for performance, namely giving rewards to employees for good performance or punishment for employees with poor performance. Stages of implementing Result Control

According to Merchant and Van der Stede in Agustin et al. (2021) the implementation of result control in an organization has 4 stages as follows, namely, defining the dimensions of the results that are desired or not (defining performance dimensions), assessing performance and these dimensions (measuring performance) to be able to carry out an evaluation in result control, an organization must be able to carry out measuring the performance of employees, arranging the performance that workers must achieve (setting targets or standards must be set for each performance target) dimensions that exist in the organization, providing rewards and punishment (providing rewards and punishment).

METHOD

This research uses a qualitative descriptive approach by conducting theoretical studies and previous literature reviews. This research discusses and examines previous literature regarding the application of Result Control and Action Control in companies and their impact on improving company performance, previous theories and research are collected and analyzed, then the researcher summarizes and links previous theories and research with conclusions and in-depth studies. Theoretical sources are obtained through journals, books and research through accredited journal websites. This research will provide an overview of how to implement Result Control and Action Control through theory and compare it with previous research. The research methodology used is purely through analysis of existing literature and theoretical studies related to the topics discussed in the research, then the researcher conducts discussions and provides conclusions through theoretical analysis and research results that support to obtain theoretical research results related to the themes discussed. in research.

RESULTS AND DISCUSSION

Implementation of Result Control in Improving Company Performance

According to Merchant & Stede in Kurniawan (2021) in a management control system there are problems. Existing problems are categorized into 3 problem categories, namely;

1. Lack of direction, when workers do not understand what they are supposed to do and are not given sufficient direction.
2. Motivational problems, when workers have different interests between company goals and workers' personal goals (egoism).
3. Personal limitations, when the worker does not have the ability to do a given job.

Based on the theory from Merchant & Stede (2014) which states general problems that often occur in a management control system, therefore, to be able to control employee performance, a system is needed that can support the company's goals can be achieved, namely a management control system. The management control system is a series of actions and activities that occur in all organizational activities and run continuously. A good Management Control System will be obtained if the company is able to carry out the four existing types of management control, namely action control, result control, personnel control and cultural control. These four types are complementary parts to create the conditions the company desires. The management control system can also be carried out by controlling results with a goal (result control). If employees carry out their work and achieve targets, they will receive rewards, and if they violate, they will be subject to punishment. (Djasmin, 2019).

The implementation of result control in an organization can be effective in improving company performance and can be carried out for employees in the following stages, (Agustin et al., 2021):

1. Determine the dimensions of the desired results or not (defining performance dimensions),
2. Performance assessment and these dimensions (measuring performance) to be able to carry out an evaluation in result control, an organization must be able to measure the performance of its employees,
3. Arrange the performance that must be achieved by workers (setting targets or standards must be set for each performance target) dimensions that exist in the organization,
4. Providing rewards and punishment (providing rewards and punishment)

In a company, the involvement of production employees in producing products plays a very important role in creating a relationship between employees and the company. So good action control is really needed to regulate the actions taken by production employees so that they do not have a direct impact on customer satisfaction. To implement good control in a company, result control is a factor that can influence a company to achieve common goals. (Djasmin, 2019). Tjiang (2017) said that result control is effective in influencing employee performance because having appropriate rewards can motivate employees to complete their tasks.

According to research conducted by (Kolk et al., 2018), it is said that a management control system based on results control has a good impact on intrinsic & extrinsic motivation and using results-based management control will have an impact on improving performance. worker. This study provides evidence about the importance of personnel control and culture for employee performance, especially in the public sector, towards intrinsic motivation. Personnel controls allow employees to cultivate competence and autonomy, while cultural controls produce more feelings of attachment. (Kurniawan, 2021).

Based on the research results of Santy & Novita (2020), result control (RC) has a significant influence on company performance, if the company's efforts in evaluating the quality of products and services that will be provided to consumers are optimal, even though there is a comprehensive evaluation that is carried out well. the results of products or services to be marketed can minimize the possibility of costs incurred by the company as a result of production failures and increase customer loyalty which will influence the company's performance. Apart from that, in carrying out result control, especially in influencing desired goals, companies must provide rewards fairly and evenly because it requires companies to incur greater costs, so not all companies emphasize result control in achieving company performance.

Implementation of Action Control to Improve Company Performance

Furthermore, to overcome problems that often occur in the management control system process, companies can carry out or implement action control. Action control is defined as a direct form of management control system which regulates ensuring that employees act in accordance with company expectations. Action control has four basic things, namely behavior restrictions, pre-action assessment, action accountability, and redundancy. Merchant & Stede (2014), Action control (AC) can have a significant effect on company performance through the fourth stage of action control, including (1) restrictions. behavior, (2) pre-action assessment, (3) action accountability, and (4) redundancy. If the company has implemented restrictions on employee behavior both physically and administratively. Administrative restrictions are carried out by creating an organizational structure and job descriptions that clearly contain responsibilities according to employee functions, divisions and positions. Meanwhile, with physical

restrictions, companies can limit employee access to important confidential information by using fingerprints online and offline to control employee attendance and providing passwords for each computer and software that contains important files/data belonging to the company. This is done with the aim of preventing information leaks which could allow misuse by irresponsible parties so that the company does not suffer losses. Companies also carry out pre-action assessments by making plans or budgets for each work program to be carried out and communicating these plans to the executives or managers concerned (Santy & Novita, 2020).

Action Control can be effective in improving company performance and can be carried out on employees in the following stages, (Agustin et al., 2021):

1. Behavioral Constraints Constraints are divided into two forms, namely physical and administrative. Physical constraints are used to prevent employees from committing fraud or actions that will cause physical harm to the business entity (Hasibuan, 2020). Meanwhile, administrative constraints aim to limit employees' ability to carry out all or only part of certain tasks or actions so that they do not take actions that could harm the business entity.
2. Preaction Reviews Preaction reviews are a review of a plan before a plan begins to be implemented. This control requires two-way communication between superiors and their subordinates. Every time an activity is carried out, the superiors will monitor what is being done and provide input if something is missing.
3. Action Accountability This method of control is to make an agreement or rule within the organization that someone must be responsible for things that have been determined. This is done by those who are responsible for certain functions and ensure that the processes carried out run as expected by the company. The steps taken to implement this control are:
 - a. Clearly define what actions are acceptable to the company and unacceptable to the company.
 - b. Communicate this to all elements of the company.
 - c. Observation or tracking of what actually happens.
 - d. Providing rewards for good actions carried out by employees and punishment for incorrect employee actions

Based on the research results of Sani and Novita (2018) which proves that action control has an influence on company performance. This shows that employees feel the implementation of action control. Research by Santy & Novita, (2020) concluded that the existence of action control can overcome employee motivational problems by providing limitations to employees to support the fulfillment of hygiene factors and satisfier factors. Agustin et al. (2021) in their research also stated that action control is effective in controlling and monitoring employees so that they can carry out work in accordance with procedures set by the company. Action control is effective in controlling employees to carry out work in accordance with existing regulations and standards, apart from that, action control can also monitor employees in their actions. According to Djasmin (2019). Through the implementation of action control, the company can control and influence the attitudes and behavior of employees to be responsible for the work at hand, monitoring actions that should not be carried out so that employees do not deviate from the rules that have been set.

Conclusion

A good Management Control System will be obtained if the company is able to carry out the four existing types of management control, namely action control, result control, personnel control and cultural control. These four types are complementary parts to create the conditions the company desires. Result control (RC) has a significant influence on company performance, if the company's efforts to evaluate the quality of products and services that will be provided to consumers are optimal, whereas with a comprehensive evaluation that is carried out well the results of the products or services that will be marketed can minimizing the possibility of costs incurred by the company as a result of production failures and increasing customer loyalty which will influence the company's performance. Through the implementation of action control, the company can control and influence the attitudes and behavior of employees to be responsible for the work at hand, monitoring actions that should not be carried out so that employees do not

deviate from the rules that have been set.

BIBLIOGRAPHY

- Agustin, Weni & Yullyana, Lyna & Rofendi, Maulana Rahmad, 2021. "[Evaluasi Action & Result Control Dalam Implementasi Sistem Pengendalian Manajemen Usaha Mikro Kecil & Menengah \(Ukm\) Rahmad Dekorasi Di Tulungagung](#)," [OSF Preprints](#) ywtvs, Center for Open Science. DOI: 10.31219/osf.io/ywtvs.
- Djasmin M. S. (2019) Penerapan Action control Dan Result Control Untuk Meningkatkan Kinerja Karyawan Produksi Pada PT. GTP Surabaya. *Calyptra: Jurnal Ilmiah Mahasiswa Universitas Surabaya*, 8(1). 57-71.
- Hasibuan, T. F. H., Meifari, V., (2022). Management Control System of Politechnic Of Health Ministry Of Health Tanjungpinang With The Use Of Digitalization Accounting As A Financial Management System. *Journal of Pharmaceutical Negative Results*, 4208-4214. <https://doi.org/10.47750/pnr.2022.13.S07.527>
- Hasibuan, D.R.F, Islamiati, H, (2020). The Behavioral Effects of Accounting Information. *Turkish Online Journal of Qualitative Inquiry*. 11(4). <https://tojqi.net/index.php/journal/article/view/8202>
- Kurniawan K. (2021). Transisi Kepemimpinan dan Sistem Pengendalian Manajemen Pada Family Business UD. A. Penggunaan teori Familiness Untuk Mengatasi Permasalahan. *Jurnal Ilmiah Manajemen Bisnis Dan Inovasi Universitas Sam Ratulangi VOL.8 NO.2, HAL. 493-513.*
- Kolk, Der, B. V., Van Veen-Dirks, P. M., & Ter Bogt, H. J. (2019). The Impact of Management Control on Employee Motivation and Performance in the Public Sector. *European Accounting Review. European Accounting Review*, 28(5), 901-928. <https://doi.org/10.1080/09638180.2018.1553728>
- Lasakar MF. Penerapan Action Control Untuk Mengatasi Motivational Problem Karyawan di PT Pundimas Bahagia di Atambua. *Jurnal Ilmiah Mahasiswa Universitas Surabaya* 2013;2(1). doi:10.1007/978-1-4020-8265-8_8
- Merchant KA, Van der Stede WA. (2014). *Management Control Systems: Performance Measurement, Evaluation and Incentives*. 4th ed., Pearson Education; doi:10.4018/978-1-4666-5011-4.ch008.
- Praptapa A, Rokhayati H. Intervensi Pengendalian dalam Sistem Pengendalian Manajemen dan Kaitannya dengan Kinerja Perusahaan. *Jurnal Reviu Akuntansi Dan Keuangan* 2012;2(2). doi:10.22219/jrak.v2i2.1074.
- Puspitasari, V., & Rachmawati, D. (2018). Implementasi Sistem Pengendalian Manajemen pada UMKM Batik Lasem. *Jurnal Keuangan Dan Perbankan*, 15(1), 29–43.
- Sani AH, Novita. (2018). Efektivitas Tool of Control terhadap Kinerja FinTech Company. *Simposium Nasional Akuntansi XXI*.
- Santy A. N. & Novita (2020) Efektivitas Implementasi Tools of Control pada Kinerja Perusahaan BUMN. *Jurnal Riset dan Aplikasi: Akuntansi dan Manajemen*, 4(3). 275-289
- Sandanafu SP, Tjokro C. (2017). Pengaruh Sistem Pengendalian Manajemen Terhadap Kinerja Perusahaan Dengan Teknologi Informasi Sebagai Pemoderasi (Studi Pada UMKM Sektor Kuliner di Kota Ambon). *Jurnal Maneksi (Management Ekonomi dan Akuntansi)*. 6(2). doi:10.31959/jm.v6i2.14.g11.
- Su, S., Baird, K., & Schoch, H. (2017). Management control system: The role of interactive and diagnostic approaches to using controls from an organizational life cycle perspective. *Journal of Accounting & Organizational Change*, 13(1). 2-24.
- Tjiang EH, Alimbudiono DRS. (2017). Implementasi Action Control dan Result Control Untuk Mengurangi Employee Turnover dan Motivational Problem PT Sumber Rejeki Gamalama Bagian Penjualan. *Calyptra Jurnal Ilmiah Mahasiswa Universitas Surabaya*. 6(2).
- Wahyuningtiyas R., Windari H. W., Utomo B. (2021). Pentingnya Sistem pengendalian Manajemen Dalam Upaya Meningkatkan Daya Saing Pada SRC Gurda Kencana (Studi Kasus Pada UMKM). *Jurnal Ilmiah Manajemen dan Bisnis*. 6(1). 33-40.

CHAPTER 8

Implementation of a Management Control System in the Form of Governance, Risk and Compliance (GCR) on Company Performance

Citra Utami¹, Anastya Dwi Isti Astari², Iskandar Muda³

^{1,2,3}Universitas Sumatera Utara, Medan, Indonesia

Email: Anastasyadwiisti@gmail.com

Alexandru-Mircea Nedelea⁴

⁴ Coordinator Club of Asian Studies, Faculty of Economics and Public Administration,
Stefan cel Mare University of Suceava, Romania

Email: alnedelea@yahoo.com

ABSTRACT

In this research, we clarify about the affect of the usage of the implementation of the Management Control System and Governance, Risk, and Compliance (GCR) on company performanc. The analyst conducted a hypothetical think about and audit of past writing to talk about in profundity the affect of actualizing the implementation of the Management Control System and Governance, Risk, and Compliance (GCR) on company performanc, the Management Control System is carried out to realize company objectives and help administration in planning each errand accurately inside its scope, appropriate examination and arranging got to be carried out in arrange to realize the company's goals and targets effectively by working beside company staff. Governance, Risk, and Compliance may be a combination of three concepts that work together to alter exercises over the company to operate more successfully and proficiently, report more and dispose of ineffectual cover. This inquire about employments a subjective expressive approach by conducting hypothetical studies and writing audits by conducting writing ponders and collecting diaries by means of websites and the web. The investigate strategy utilized is absolutely through examination of existing writing and hypothetical thinks about related to the points talked about within the investigate. Through the comes about of hypothetical considers and writing surveys, comes about were found with the conclusion that company administration carries out and actualizes organized administration control in both formal control frameworks and casual control frameworks so that all administration capacities run viably and productively. The usage of a Management Control System in a company is able to preserve solidness and guarantee company execution is in agreement with the plans and desires of company administration. Companies that apply the concept of Governance, Risk, and Compliance (GRC) in an coordinates way, in understanding with controls and methodicallly in a sustainable manner will increment coordination control in each line of the company and make efficiency in company management which can have an affect on making strides company execution.

Keywords: Management Control System, Governance, Risk, and Compliance, Company Performance.

INTRODUCTION

Business competition is currently becoming increasingly complex and extensive in line with the development of information technology, globalization and economic integration. A developing and integrated world market not only makes it easier for companies to carry out transactions between countries and develop their business, but also brings challenges for companies in achieving their goal of making shareholders prosperous (Santoso, 2020). This condition indirectly encourages companies to always strive to increase the value of their company to achieve the goal of making shareholders prosperous.

According to Sujarweni (2021) performance is the result of assessing the work carried out, comparing the results of the work against the standards set for each work carried out, and must be evaluated or measured periodically. Financial performance is the result of operational activities whose finances lead to better results for the underlying company activities (Setiawan, Hasiholan & Pranaditya 2018). Financial performance is an important indicator and factor that potential investors consider when investing in shares. Financial ratios are needed to assess the results of a company's financial performance, because according to financial ratios they can explain the company's financial level, measure management efficiency, evaluate performance, and be an alternative method of verifying that financial information is used according to financial accounting for capital market classification or stock return forecasting (Riani et al., 2020, Wijaya & Khoironi, 2021).

In carrying out company operations, a good management system cannot be separated in order to achieve optimal company performance to realize company goals. According to Murhaban and Adnan (2020), a management control system is a series of systems needed to ensure that everything each employee does remains in line with the company's goals, so the system must be strategized well and precisely. In achieving company goals and assisting management in properly coordinating each task within its scope, proper analysis and planning need to be carried out in order to successfully realize company goals and targets by working together with company personnel (Murhaban & Adnan, 2020).

A management control system is needed to control how the company's strategy takes place in accordance with its plans and objectives. The company's readiness and willingness to follow developments in the business world, which will always face situations where the planned strategy is not well defined. The main role of the management control system is to ensure that the implementation of the chosen strategy runs well. (Chandra, 2017) Where, strategy formulation focuses on the long term. Implementing a management control system in a company is very important because this system influences human behavior

Governance, Risk, and Compliance is a combination of three concepts that work together to adjust activities throughout the company to function more effectively and efficiently, report more and eliminate ineffective overlap (Maulana & Iradianty 2022). In implementing these three concepts, GRC becomes an integral and sustainable concept. If a company does not apply the GRC concept without integrity, it will cause weak coordination and lead to inefficiency in managing costs which will have an impact on company performance (Sadalia et al., 2019). On the other hand, if its implementation is integrated, it can be a company resolution of weak qualifications in various industries and other commodities to support the country's economy and encourage company performance levels (Habsyi et al. 2021).

Governance, risk, and compliance (GRC) activities are fundamentally interconnected, and by establishing common, integrated disciplines around regulations, policies, risks, controls, and issues, relying on a common set of information, methodologies, processes, and technologies, organizations Leading companies have demonstrated that they can make better use of information, improve operational efficiency, and provide greater transparency into legal, regulatory, operational, and overall business risks (Accelus 2012). However, in reality, the implementation of GRC is not yet integrated, and cannot provide additional value for the organization. GRC silos which result in poor coordination, conflict, imbalance and cost inefficiencies (GRC Forum Indonesia 2020).

The development of these three concepts, namely the application of GRC, has become concepts that are interrelated and have a close relationship. In a company, if GRC is not well integrated, this can result in weak coordination, costs are not managed efficiently, and have a negative impact on the performance of the company itself. On the other hand, if these three concepts are integrated well, this can be a way out for companies in facing challenges in various commodities and industries, boosting the national economy, and

increasing their productivity (Anatasya & Novita, 2019). In reality, the implementation of GRC is still siloed so that it does not provide optimal added value for the organization. The siloed condition of GRC is reflected in the form of weak coordination, conflicts/overlaps, gaps and cost inefficiencies (GRC Forum Indonesia, 2020).

In the CRMS Indonesia survey (2022), in 2022 as many as 35.5% of companies do not have a mature strategy for implementing integrated GRC, and as many as 1.4% of companies consider integration to be complex. There is also very little research on the implementation of integrated Governance, Risk and Compliance (GRC) in Indonesia. In recent years, the application of GRC in the field of management has become the focus of company attention, which is why the Top GRC Awards are held. These activities can motivate companies to improve GRC implementation in Indonesia. Continuously develop performance based on the implementation of GRC trust to advance long-term business development through improving procedures and implementing integrated GRC regulations (Topbusiness 2021). The GRC maturity level survey conducted by OCEG (Open Compliance & Ethics Group) in 2019 revealed that 14% of respondents had concretely integrated GRC processes and technology, 23% still had silos and the rest lacked adequate GRC maturity. Another survey on CG Watch 2018: Hard Decisions Asia Faces Tough Choices in CG Reform published by the Asian Corporate Governance Association (ACGA) and CLSA Limited in 2018 revealed that Indonesia needs major improvements to keep pace with other Asian countries. While Indonesian organizations' transparency practices have improved through the implementation of better accounting standards for financial reporting, there are still some irregularities in trading and insider trading, according to the findings (GRC Forum Indonesia 2020). Since companies in all sectors have little ability to assess the effectiveness and impact/benefits of GRC implementation, such an assessment must be carried out because it shows that GRC implementation work has a significant effect on the company's business performance (Republika, 2020).

LITERATURE REVIEW

Management Control System

According to Adnan and Murhaban (2020), a management control system is a series of systems needed to ensure that everything each employee does remains in line with the company's goals, so the system must be strategized well and precisely. In achieving company goals and assisting management in coordinating each task correctly within its scope, proper planning and analysis needs to be carried out in order to successfully realize the company's goals and objectives by collaborating with company energy (Murhaban & Adnan, 2020). The management control system has several characteristics (Supriyono, 2017), namely:

- 1) A system is organized to achieve a certain goal.
- 2) The elements that form a system must have a plan and of course still have relationships in order to achieve organizational goals.
- 3) All forms of organizational goals must take priority over smaller goals in an organization, such as departmental goals.

According to Adnan and Murhaban (2020), there are 2 factors that can influence the management control system, including:

- 1) External Factors All employee or human behavior in a company can be influenced by a formal system, which also influences the same goals, but in an informal process. This influences management style, culture and work ethic. To get the right strategy and formula, a balance in informal and formal mechanisms, both external and internal, must be maintained.
- 2) Internal factors
 - a) Culture Internal factors are very important and one of them is the application of habits within the company itself, which includes the existence of norms and values in the company, tolerance between religious communities, and all good things that can be used to achieve the company's common goals. Therefore, these cultural rules or norms are very important.
 - b) Management Style Generally, the manager's leadership attitude that is considered by superiors is reflected by the behavior and actions of employees. Then the manager's behavior is a reflection of the attitude of the CEO or company owner, who in each company has managers with varying qualities and behavior. Some of the leaders or managers are relaxed, friendly with subordinates,

firm, charismatic, and there are quite a few managers who do their own work and are busy with it, there are also managers who just relax while doing their activities, gathering with employees or workers who are busy with work.

Governance, Risk, and Compliance

GRC is an abbreviation of Governance, Risk, and Compliance which was later adopted as the acronym GRC (Governance, Risk, and Compliance) in Indonesia. The term governance is used to replace the term governance to accommodate a wider scope. The National Committee for Governance Policy - KNKG (2019) states that the term governance has a narrower meaning which only regulates relationships between internal parties in the organization. Meanwhile, the term governance refers to a more diverse arrangement of stakeholders (internal and external). Conceptually, the idea of GHG was first proposed in 2003 by the Open Compliance and Ethics Group (OCEG). Based on the definition issued by OCEG, the goal of implementing integrated GRC is to achieve principled performance through handling uncertainty and acting with integrity which is the foundation of the organization.

Governance

Good Corporate Governance (GCG) is a procedure for managing a healthy company that has been introduced by the Indonesian government and the International Monetary Fund (IMF). This concept is expected to protect shareholders and creditors so they can get their investment back. Indonesia has begun to implement GCG principles since signing a Letter of Intent (LOI) with the IMF, one of the important parts of which is the inclusion of a schedule for improving the management of companies in Indonesia. In line with this, the National Corporate Governance Committee (KNKCG) believes that companies in Indonesia have a responsibility to implement GCG standards that have been implemented by international standards. According to Tunggal (2013:24) Corporate Governance is a system that regulates, manages and supervises the business control process to increase share value, as well as a form of attention to stakeholders, employees and the surrounding community (Yuan et al, 2023). Next, according to the Forum for Corporate Governance in Indonesia/FCGI (2001) defines Corporate Governance as a set of regulations that determine the relationship between management stakeholders, creditors, government, employees and other internal and external stakeholders in relation to their rights and obligations, or in other words a system that directs and controls the company.

Risk (Risk Management)

Risk management is a step or approach that allows companies to assess, identify, monitor and control business risks. Risk management allows all management parties to guide business activities back to a determined path and the company still needs to control the risk management involved. (Halim & Wijaya, 2020). Risk management is an activity carried out to identify, analyze and control risks that may occur in an activity or activities so that higher effectiveness and efficiency will be obtained (Darmawi, 2016). According to the Ministry of Finance of the Republic of Indonesia, risk management is a systematic approach that involves identifying, evaluating, controlling and monitoring risks that may affect the achievement of an organization's goals. The aim is to recognize potential problems or negative impacts that may arise from uncertainty or changes in the operational environment, and to take the necessary steps to reduce risks or overcome their consequences.

Compliance

According to the National Standardization Agency (BSN), compliance management is a process, policy and procedure implemented by an organization to comply with relevant laws, regulations, industry standards and internal policies. A compliance management system is a structured approach to managing regulatory and legal risks, and ensuring that an organization operates within the bounds of the law. A compliance management system generally includes several components, such as policies and procedures, risk assessment, compliance monitoring and testing, training and communication, incident management and

corrective action. (<https://bsn.go.id.:2021>)

According to Wardana et al., (2019:87) compliance is a behavioral process that strengthens the values of obedience and fidelity, loyalty, regularity or it could be said that attitudes or actions are no longer considered or felt as a burden, but become a burden when they cannot be carried out. as usual. Compliance management is designed to meet regulatory transparency requirements and legal reporting obligations (Gericke, Fill, Karagiannis & Winter 2009). According to the IBFG Institute (2017) the relationship between these three concepts begins with establishing compliance requirements through applicable regulations (Compliance, C). In addition, the risk of non-compliance arising from these requirements is managed by Risk Management (R). Finally, the risk management plan is implemented through corporate governance controls (Governance, G). The process returns to the first part, evaluating processing results that meet compliance requirements

Company performance

Company performance is the result of company activities or activities which can be a benchmark for company success (Apriliani and Dewayanto 2018). However, according to Dewi (2018), company performance is the performance produced by companies in the financial sector. Information regarding company performance is very important for use by interested parties such as the government, society, creditors and shareholders. The government has an interest in regulations and policies that will affect company performance, the public has an interest as consumers of the products produced by the company. Likewise, creditors measure the feasibility of providing loans to companies through the performance produced by the company, and shareholders who expect good company performance so that they can generate profits. If the company's performance is good, then interested parties in the company can make the right decisions.

Company performance is the work result that can be achieved by a group of people in an organization or company, in accordance with their respective authority and responsibilities in an effort to achieve company goals legally, does not violate the law and does not conflict with morals and ethics (Rivai, 2018) According to Mulyadi (2017) Performance is the periodic determination of the operational effectiveness of an organization, parts of the organization and its employees based on targets, standards and criteria that have been previously determined by the company's operational activities to benefit from the resources it owns. Furthermore, the definition of company performance was also put forward by Bastian (2016) as a description of the level of achievement of an organization's task implementation in an effort to realize the organization's goals, objectives, mission and vision.

METHOD

This research uses a qualitative descriptive approach by conducting theoretical studies and previous literature reviews. This research discusses and reviews previous literature regarding the implementation of the Governance, Risk, and Compliance (GRC) management control system and its implications for company performance, theory and previous research are collected and analyzed then the researcher summarizes and links the theory and previous research with conclusions and studies depth. Theoretical sources are obtained through journals, books and research through accredited journal websites. This research will provide an overview of how the management control system and Governance, Risk, and Compliance are implemented on company performance through theory and comparing it with previous research. The research methodology used is purely through analysis of existing literature and theoretical studies related to the topics discussed in the research, then the researcher conducts discussions and provides conclusions through theoretical analysis and research results that support to obtain theoretical research results related to the themes discussed. in research.

RESULTS AND DISCUSSION

Implementation of Management Control Systems in Improving Company Performance Pengaruh

The suitability of the Management Control System (MCS) concept to be applied in companies, including, the main focus of the management control system is related to how to implement organizational strategies effectively and efficiently to achieve organizational goals. Then, the management control process can be carried out using formal or informal communication channels. Informal communication can be through direct communication, informal meetings, discussions, or through the management by walking around method, namely to find out the root of problems that occur with employees, which might cause the company's performance to decline further (Mardiasmo, 2021). Implementing a Management Control System in a company is a strategic step that must be implemented in a company. According to Adnan and Murhaban (2020), in a management control system there are four processes or steps, including:

1) Planning and strategy formulation

Formulation is a process when a company determines the vision, mission, direction, targets, goals, strategies and policies set by the company. This phase is the process of selecting certain activities, programs and projects that must be carried out by a company or organization, then identifying the amount of resources needed.

2) Budgeting

A program narrated in a quantitative manner in monetary units over a period of time usually per year is called a budget. Meanwhile, a process of determining the role of each manager in implementing a strategy or program is called budgeting

3) Implementation and measurement

It is necessary to conduct a survey of the income generated by the company and the various resources used in this phase. These costs and records are sorted according to designated program responsibility centers. Manager performance is measured using accountability-oriented classifications, while future corporate programming uses classifications appropriate to the program.

4) Job evaluation

Evaluation is carried out by comparing all previously determined budgets with the results of budget implementation. This phase is the most important phase because it breaks the accounting process cycle so that all data can be combined for accounting processing

According to Supriyono (2017), there are several benefits if the management control system is implemented well for:

- 1) Ensure the security of all assets in the ownership of the company or organization.
- 2) Obtain organizational integrity and reliability
- 3) Ensure compliance with every policy and regulation in the company or organization can be achieved.
- 4) Maintain integrity so that nothing happens that is contrary to established regulations.

The importance of management control systems in managing change effectively, by providing empirical insight into the relationship between management control systems and management innovation is considered relevant for a number of reasons. First, the importance of understanding how control and creativity are related. Second, the role of management is intertwined with the notion of control, management is responsible for actions that influence employee behavior and align their interests with organizational goals (Su et al., 2017). Faeni et al., (2020) argue that an effective control system depends on the use of the four levers. The use of a management control system can facilitate two performance monitoring objectives, namely increasing efficiency and effectiveness and encouraging creativity to improve performance. Research conducted by Nursyamsir et al. (2023) Management control systems have a significant influence on organizational performance, where improving and implementing management control systems can improve organizational performance

Implementation of Governance, Risk, and Compliance (GRC) as a Management Control System and its Relationship to Company Performance

Maksoud et al. (2021) investigate whether stakeholder pressure directly intensifies the extent of use

of control systems, and thus indirectly impacts companies. This research provides a broader understanding of the development of management control systems, the research findings reveal that pressure from organizational stakeholders has a significant and positive influence on all management controls in the company. Hosoda (2021) examines management control systems in the form of integrated reporting (IR) integration into formal reporting control systems (FCS) used by early adopters to implement IR, and investigates whether IR can drive informal vehicle control system (ICS) changes in this early stage. A case study was conducted in seven large Japanese companies. The results show a gradual change in the integration of IR into FCS. However, such integration may not cause major changes to the company, realizing the importance and necessity of instilling integrated thinking at all levels of the company to put it into practice for the creation and improvement of company performance.

Good corporate governance supervision applied to companies is expected to improve company performance both financially and operationally. Companies that implement good corporate governance will have a positive impact on the company, one of which will be able to improve the welfare of owners or shareholders by increasing the value of the company in the eyes of investors. Good corporate governance also encourages all internal and external factors in the company to be better in carrying out its management. Good corporate governance is also the key to a company's success in generating profits. Companies that apply the concept of Governance, Risk, and Compliance (GRC) in an integrated manner, and in accordance with the provisions and systematically in a sustainable manner will increase coordination power in each line of the company and create efficiency in company management which will have an impact on company performance. (Taufiq, 2023)

Haryono and Paminto (2015) also revealed that corporate governance is one of the main keys in terms of increasing efficiency and economic growth as well as investor confidence. According to Ullah et al., (2017), the existence of corporate governance is considered capable of increasing investor confidence and protecting investor interests. (Wiyuda and Pramono, 2017) state that implementing Good Corporate Governance can restore investor confidence to invest their capital again and can also improve the financial performance of a company, resulting in good corporate governance. This is also supported by the results of previous research conducted by (Perdani, 2016) which states that there is an influence of Good Corporate Governance which is measured using the board of directors, board of commissioners and audit committee on financial performance.

Chance administration may be a arrangement of strategies and strategies utilized to identify, degree, screen and control dangers which will emerge from trade exercises. In connection to company execution, chance administration is carried out with the point of progressing company execution. Actualizing great hazard administration will have an affect on accomplishing company objectives in agreement with what is anticipated. In a company it is exceptionally troublesome to maintain a strategic distance from chance, hence it is essential to carry out hazard administration since risk management incredibly impacts operational exercises within the company, on the off chance that hazard administration within the company runs well at that point the exercises carried out will involvement ease without deterrents affected by hazard. Citing inquire about which is conducted by. Concurring to the IBFG Organized (2017) the relationship between these three concepts starts with setting up compliance necessities through appropriate directions (Compliance, C). In expansion, the hazard of non-compliance emerging from these requirements is overseen by Risk Management (R). At long last, the hazard administration arrange is actualized through corporate administration controls (Administration, G). The method returns to the primary portion, assessing handling comes about that meet compliance prerequisites.

Governance, Risk, and Compliance (GRC) are three columns that work together to guarantee a company accomplishes its objectives (Spanaki and Papazafeiropoulou, 2016). Governance is a combination of forms built up and carried out by the board of chiefs, which are reflected within the organizational structure and the way it is managed and carried out to realize objectives (Rasmussen, 2018). In spite of the expanding significance of viable administration, numerous companies are gradually receiving a GRC approach to appropriately coordinated it into trade and administration forms. Regularly in receptive mode, companies are stuck with negligible comes about for greatest exertion. In the interim, risk management predicts and oversees dangers that have the potential to prevent the company from accomplishing its objectives (Krause and Tse, 2016). Compliance with company arrangements, strategies, laws and controls.

Solid and proficient administration is the key to corporate victory (Arora and Sharma, 2016). Agreeing to Papazafeiropoulou & Spanaki (2016) the term GRC was at first presented in 2004 by Pricewaterhouse Coopers and has since gotten to be a broadly rising and critical arrangement for an organization's commerce needs . The following is a picture of the components of implementing Governance, Risk, and Compliance as follows:

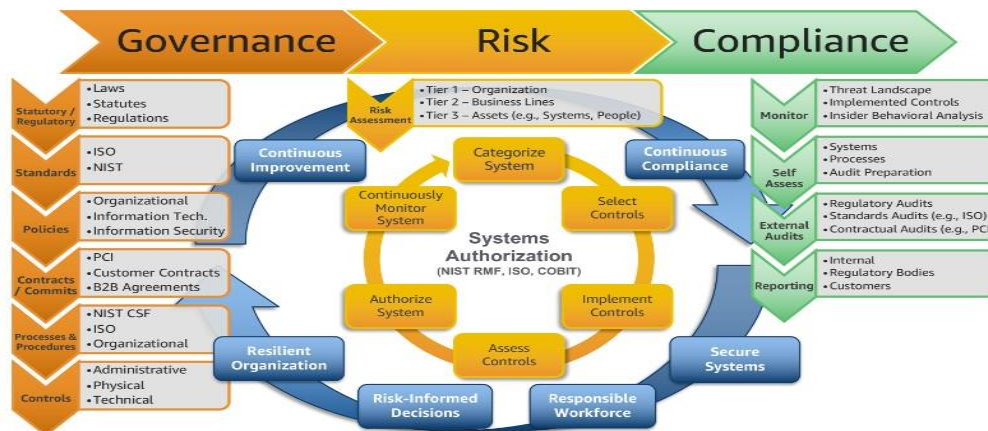


Figure 1 GRC Implementation Process

Source: <https://aws.amazon.com>.2023

Governance, Risk, and Compliance (GRC) may be a term that alludes to the concepts of administration, chance administration, and compliance. When executed successfully inside a trade, it can lower costs, decrease wasteful aspects, and move forward communication inside a company; GRC can help in guaranteeing a company's objectives and goals are characterized more clearly, the company's structure is progressed, and its controls are taken after accurately. Solid GRC lays the establishment for future commerce extension (Greenhalgh, 2020). When GRC prerequisites are overlooked, space is opened for deceptive commerce hones to multiply (Haugh, 2019). Organizations have upgraded inner review and hazard administration capacities and budgets due to expanded center on administration, chance, and compliance activities. An coordinates GRC program was created to extend the adequacy and proficiency of hazard and control capacities carried out over the organization due to concerns with respect to the in general costs related with such exercises (Handoko et al., 2020). In executing coordinates risk management and administration, executing GRC may be a arrangement and could be a need for the industry and the interface of company shareholders to realize compliance with the approaches set by the company. Such as making work and fetched efficiencies to dodge extortion which can be done through administration, hazard administration, inside review, compliance, control and audit committees which can relieve dangers to a least level.

Based on the clarification over, it can be concluded that companies that apply the concept of Administration, Chance and Compliance (GRC) as one of the administration endeavors and control frameworks in an coordinates way, and in agreement with arrangements and methodically in a economical way will increment coordination control in each portion of the company and make proficiency in company administration which is able have an affect on company execution. By actualizing great and straightforward corporate administration, executing chance administration in orderly and consistent hazard control at each line within the company, it'll have a critical affect on the company's execution

CONCLUSION

Company management carries out and implements structured management control in both formal control systems and informal control systems so that all management functions run effectively and efficiently. The implementation of a Management Control System in a company is able to maintain stability and ensure company performance is in accordance with the plans and expectations of company management. Governance, Risk, and Compliance (GRC) information shown to stakeholders is a manifestation of management's strong commitment to running the company through good governance, maintaining

management company risks, and a reliable level of compliance. Therefore, the implementation of Governance, Risk and Compliance (GRC) in a company can be part of a positive signal to stakeholders in a company. In this research, it has been explained how Governance, Risk, and Compliance (GRC) theoretically and based on a review of previous research literature regarding the influence of GRC and its impact on company performance, the application of Governance, Risk, and Compliance provides an important role in anticipating the progress of company activities which can improve company performance.

BIBLIOGRAPHY

- Accelus, T.R. (2012). *Fundamentals of GRC : The Connected Roles of Internal Audit and Compliance*.
- Anatasya, D., dan Novita. (2019). Pengaruh Penerapan Governance Risk, and Compliance Terhadap Kinerja Perusahaan. *Jurnal Ilmiah Akuntansi dan Finansial Indonesia* Volume 3, No.1, Oktober 2019
- Apriliani, M. T., & Dewayanto, T. (2018). Pengaruh tata kelola perusahaan dan ukuran perusahaan terhadap kinerja keuangan perusahaan artikel ilmiah. *Diponegoro Journal of Accounting*, 7(1), 1–10.
- Arora, Akshita dan Sharma, Chandan. (2016). Corporate governance and firm, performance in developing countries: evidence from India. *Corporate Governance Journal*, University of Nottingham, Vol. 16 Issue: 2, pp.420-436.
- Bartos, Basir, (2004). *Manajemen Sumber Daya Manusia : Suatu Pendekatan*. Makro, Bumi Aksara.
- Bastian, I. 2016. *Strategi Manajemen Sektor Publik*. Jakarta: Salemba Empat
- Chandra, R. (2017). Penerapan Sistem Pengendalian Manajemen Terhadap Kinerja Keuangan Pada PT. Indojava Agri Nusa. *Jurnal Samudra Ekonomi Dan Bisnis*, 8(1), 619-633. <https://ejournalunsam.id/index.php/jseb/article/view/202>
- Chariri, A dan Ghozali, Imam. (2007). *Teori Akuntansi*. Semarang : Badan Penerbit Universitas Diponegoro.
- CRMS Indonesia (2022). Saatnya Merealisasikan Pelaksanaan GRC dengan Pendekatan Terintegrasi. URL: <https://crmsindonesia.org/publications/saatnya-merealisasikan-pelaksanaan-grc-dengan-pendekatan-terintegrasi/>. Diakses pada Oktober 2023.
- Darmawi, Herman. (2016). *Manajemen Risiko (Edisi 2)*. Jakarta: Bumi Aksara
- Forum for Corporate Governance in Indonesia (FCGI).(2001). *Corporate Governance: Tantangan dan Kesempatan bagi Komunitas Bisnis Indonesia*. Jakarta: Prentice Hall
- Gericke, A., Fill, H.G., Karagiannis, D. & Winter, R. (2009). Situational method engineering for governance, risk and compliance information systems. *Proceedings of the 4th International Conference on Design Science Research in Information Systems and Technology, DESRIST '09*. URL: <https://doi.org/10.1145/1555619.1555651>.
- GRC Forum Indonesia (2020). *Panduan Mencapai Model Keunggulan Governance, Risk, and Compliance (GRC)*.
- Greenhalgh, T. (2020). *Aligning Governance, Risk, and Compliance*. Ahima. <https://journal.ahima.org/aligning-governance-risk-and-compliance>
- Habsyi, S. Al, Suharman, H. & Handoyo, S. (2021). Effect of Grc and Intellectual Capital on Company Performance. *Jurnal Riset Akuntansi Kontemporer*, 13, 2, pp. 106–112. URL: <https://doi.org/10.23969/jrak.v13i2.4130>
- Halim, Y.R. & Wijaya, H. (2020). Pengaruh Modal Intelektual Terhadap Kinerja Perusahaan Dengan Manajemen Risiko Perusahaan Sebagai Moderasi. *Jurnal Akuntansi Keuangan dan Bisnis*, 13, Vol.13 No. 2 (2020), pp. 78–87. URL: <https://doi.org/10.35143/jakb.v13i2.3654>.
- Handoko, B. L., Riantono, I. E., & Gani, E. (2020). Importance and Benefit of Application of Governance Risk and Compliance Principle. *Systematic Reviews in Pharmacy*, 11(9).
- Haryono, U., & Paminto, A. (2015). Corporate Governance and Firm Value : The Mediating Effect of Financial Performance and Firm Risk. *Journal of Business and Management*, 7(35), 18–24
- Haugh, Todd. (2019). Harmonizing Governance, Risk Management, and Compliance Through the Paradigm of Behavioral Ethics Risk, 21 *J. BUS. L.* 873 (2019). Available at: <https://scholarship.law.upenn.edu/jbl/vol21/iss4/4>
- Krause, T. A., dan Y. Tse. (2016). “Risk management and firm value: recent theory and evidence.” *International Journal of Accounting and Information Management* 24 (1). Emerald Group Publishing

- Ltd.: 56–81. doi:10.1108/IJAIM-05-2015-0027.
- Mardiasmo, M. B. A. (2021). Akuntansi Sektor Publik-Edisi Terbaru. Penerbit Andi.
- Maryam, Dewi. (2018). Pengaruh Struktur Modal dan Ukuran Perusahaan Terhadap Agency Cost dan Kinerja Perusahaan (Studi pada Perusahaan Manufaktur Sektor Industri Barang Konsumsi yang Terdaftar di Bursa Efek Indonesia). *Jurnal Akuntansi dan Pajak*, 18 (02).
- Maulana, M.W. & Iradianty, A. (2022). Analisis Pengaruh Governance, Risk, and Compliance terhadap Kinerja Keuangan Bank Umum Syariah di Indonesia Periode 2016 - 2020. *e-Proceeding of Management*, 9, 2, pp. 115–124.
- Miskiani, K. A., & Bagia, I. W. (2020). Peningkatan Kinerja Karyawan Melalui Motivasi Kerja Disiplin Kerja. *Prospek: Jurnal Manajemen dan Bisnis*, 2(2), 120-129. Retrieved from <https://ejournal.undiksha.ac.id/index.php/Prospek/article/view/27077/pdf>
- Mulyadi, 2017. *Manajemen Sumber Daya Manusia*. Penerbit In Media. Jakarta
- Murhaban, & Adnan. (2020). *Sistem Pengendalian Manajemen*. Lhokseumawe: SEFA BUMI PERSADA.
- Nursyamsir R., Ismail T., Ismawati I. (2023). Management Control System, Innovation Dan Organizational Performance. Owner: Riset & Jurnal Akuntansi e –ISSN : 2548-9224 | p-ISSN : 2548-7507 Volume 7 Nomor 4, Oktober 2023 DOI : <https://doi.org/10.33395/owner.v7i4.1839>.
- Papazafeiropoulou, A. & Spanaki, K. (2016). Understanding governance, risk and compliance information systems (GRC IS): The experts view. *Information Systems Frontiers*, 18, 6, pp. 1251–1263. URL: <https://doi.org/10.1007/s10796-015-9572-3>.
- Perdani, V. M. (2016). *Pengaruh Good Corporate Governance terhadap kinerja keuangan pada perusahaan perbankan yang terdaftar di BEI tahun 2010-2014* (Doctoral dissertation, Universitas Islam Negeri Maulana Malik Ibrahim).
- Puspangtyas Faeni, D., Puspangtyas Faeni, R., Septiyanti, R., & Yuliansyah, Y. (2020). The Role Of Management Control System On Firm Performance. *Talent Development & Excellence*, 12(3s), 1629–1639. <http://www.iratde.com>
- Rasmussen M. (2018). *Market Sizing, Forecasting, Analysis & Segmentation*, GRC 20/20 Research, Phoenix, AZ.
- Republika (2020). *Integrated GRC Dorong Kinerja Bisnis Berkelanjutan*. URL: <https://www.republika.co.id/berita/qiaiep374/integrated-grc-dorong-kinerja-bisnis-berkelanjutan>. Diakses pada Oktober 2023.
- Riani, M., Muda, I., & Rini, E. S. (2020). The Analysis of the Influence of financial performance on stock prices with earning growth as a moderating variable in infrastructure, utility and transportation sector companies listed on the Indonesia Stock Exchange. *International Journal of Innovative Science and Research Technology*, 5(5), 18
- Rivai, Veithzal. (2018). *Manajemen Sumber Daya Manusia untuk Perusahaan dari Teori ke Praktek*. Cetakan Pertama. Jakarta: Murai Kencana.
- Sadalia, I., Daulay, I. E., Marlina, L., (2019). The influence of intellectual capital towards financial performance with brand value as an intervening variable. *Calitatea*, 20(168), 79-85.
- Santoso, M. R., (2020). Shareholders and Firm Value for Manufacturing Companies Listed in Indonesia Stock Exchange. *Journal of Economics, Business, & Accountancy Ventura*, 23(1). 138-147. <https://journal.perbanas.ac.id/index.php/jebav/article/view/2171>
- Setiawan, W., Hasiholan, L. B., & Pranaditya, A. (2018). Pengaruh Kinerja Lingkungan, Biaya Lingkungan dan Ukuran Perusahaan terhadap Kinerja Keuangan dengan Corporate Social Responsibility (CSR) Sebagai Variabel Intervening (Studi Kasus Perusahaan Studi Kasus pada Perusahaan Manufaktur yang terdaftar di Bursa). *Journal of Accounting*, 4(4).
- Su, S., Baird, K., & Schoch, H. (2017). Management control systems: The role of interactive and diagnostic approaches to using controls from an organizational life cycle perspective. *Journal of Accounting & Organizational Change*, 13(1), 2–24. <https://doi.org/10.1108/JAOC-03-2015-0032>
- Sujarweni, V.W. (2021). *Analisis Laporan Keuangan: Teori, Aplikasi, & Hasil Penelitian*. Pustaka Baru Press.
- Supriyono, R. (2017). *Sistem Pengendalian Manajemen*. Yogyakarta: BPFE. Retrieved from <https://opac.perpusnas.go.id/ResultListOpac.aspx?pDataItem=Supriyono,%20R.A&pType=Author&pLembarkerja=-1&pPilihan=Author>

- Taufiq M. (2023). Literacy Study on Governance, Risk and Compliance (GCR) and Performance. *International Journal of Management, Economic and Accounting* Volume 1, Issue 2 Desember 2023E-ISSN 3025-5627 (Online)<https://doi.org/10.61306/ijmea>.
- Topbusiness (2021). TOP GRC Awards 2021, Penghargaan GRC Terbesar di Indonesia. URL: <https://www.topbusiness.id/56119/top-grc-awards-2021-penghargaan-grcterbesar-di-indonesia.html>. Diakses pada Oktober 2023.
- Tunggal, Amin Wijaya. (2013). *Internal Audit dan Good Corporate Governance*. Jakarta: Erlangga
- Ullah, W., Ali, S., & Mehmood, S. (2017). Impact of Excess Control, Ownership Structure and Corporate Governance on Firm Performance of Diversified Group Firms in Pakistan. *Business & Economic Review*, 9(2), 49-72.
- Utomo, A. S. (2019). Pengaruh CSR, ROI, ROE Terhadap Harga Saham Pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia. *Jurnal Penelitian Teori & Terapan Akuntansi (PETA)*, 4(1), 82-94
- Wardana, K.W., Risangadi, R., Syarif, P.B., Dewanto, A., Siwi, E.L.M., Agustina, F., Latief, E.F., Adiwati, S., Setiawan, A., Wardana, L.D.W., Primadi, S., Hendra & Kristiana, A. (2019). *Governance Risk Management Compliance Managing Uncertainties With Integrity and Integration*. PT Jasa Raharja (Persero).
- Wijaya, Suparna & Khoironi, T. F. R. (2021). Kinerja Keuangan Manchester United PLC Sebelum Dan Di Masa Pandemi Covid-19. *Distribusi*, 9(2).
- Wiyuda, A., & Pramono, H. (2017). Pengaruh good corporate governance, karakteristik perusahaan terhadap luas pengungkapan corporate social responsibility pada perusahaan terdaftar di BEI. *Kompartemen: Jurnal Ilmiah Akuntansi*, 15(1).
- Yuan, J., Al Shraah, A., Kuo, Y. K., Mabrouk, F., Espinoza-Maguiña, M., & Abdulrehman, N. (2023). Effects of ecological innovation, governance structure, and social development on the adoption of sustainable reporting in the global tourism industry. *Economic Research-Ekonomska Istraživanja*, 36(2), 2179092. <https://doi.org/10.1080/1331677X.2023.2179092>

CHAPTER 9

Implementation Of Gri Standards as a Guideline for Preparation Sustainability Report 2023 For Construction Sector Companies on the Indonesian Stock Exchange

Suci Normala

Universitas Sumatera Utara, Medan, Indonesia

Sucinormala68@gmail.com

Katherine Helen Aurora

Universitas Sumatera Utara, Medan, Indonesia

katherine.helen.aurora@gmail.com

Putri Ayu Lestari

Universitas Sumatera Utara, Medan, Indonesia

Ptriiayu0611@gmail.com

Iskandar Muda

Universitas Sumatera Utara, Medan, Indonesia

Iskandar1@usu.ac.id

ABSTRACT

This paper aims to analyze the disclosure of corporate social responsibility (CSR) in sustainability reports issued by construction companies listed on the IDX based on the Global Reporting Initiative standard. This study refers to the Consolidated GRI Standard 2021 as the latest guideline in preparing sustainability reports. This study is a fact-based descriptive study on the sustainability reports of three companies listed on the Indonesia Stock Exchange. The objects of this study are PT. Wijaya Karya Tbk, PT. Adhi Karya Tbk, and PT. Pembangunan Perumahan Tbk. This study uses secondary data, namely the 2023 sustainability report. This study shows that the three companies that are the subjects of this study have prepared their Sustainability Reports using the GRI standard guidelines by following the four series, namely 100 (Universal standard), 200 (Economic), 300 (Environmental), and 400 (Social). The breadth of disclosure is carried out in sync with the selected material topics. But generically, the three companies have tried to report in sync with the principles, namely the principles for selecting report content & the principles for selecting report quality.

Keywords: CSR, Sustainability Report, GRI.

INTRODUCTION

Background

Social Responsibility (CSR) has become very important lately because many parties are starting to be interested in sustainability reports that contain information about the company's sustainability report. Through the information disclosed in the sustainability report, it can be seen how the company contributes to the economic, environmental, and social aspects.

Previous research on CSR and social welfare has revealed that some businesses have allocated more resources to CSR. CSR is considered an active source of competitive advantage and can be used as a proactive business strategy and an efficient marketing tool to build and maintain competitive advantage. Businesses realize that they need to move beyond “doing good” to “doing better” and perhaps “doing the best” by creating new social values if they want to survive and compete in the highly competitive global market (Nimati et al., 2022)

Reporting standards for preparing Reporting standards for preparing CSR were first published by the Global Reporting Initiative (GRI). GRI is a non-governmental organization that develops sustainability reporting guidelines, and its reporting structure has been adopted by several countries in the world (Afrizal et al., 2023). A sustainability report is a public report that describes a company's economic, environmental, and social performance in carrying out its operations sustainably.

Public companies in Indonesia are required to implement sustainable finance/activities as stipulated in POJK No.51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies or POJK Sustainable Finance. In response to this, companies listed on the Indonesia Stock Exchange since 2017 are included in the institutions that are required to follow this rule. Companies have begun to make corporate social responsibility (CSR) part of their company's sustainability strategy. Many companies in Indonesia use the GRI Standard Guidelines to create sustainability reports to be able to report on the implementation of their sustainability strategies.

This study aims to analyze corporate social responsibility (CSR) disclosure reports in sustainability reports published by construction companies listed on the IDX based on the Global Reporting Initiative standard (Singa et al., 2022).

In this study, the companies studied are construction sector companies listed on the Indonesia Stock Exchange (IDX). The selection of companies from the construction sector is because the concept of green building is a hot topic in the construction industry. Green buildings are architectural designs that consider environmental, health, and social sustainability and have an impact on the environment. The construction industry carries itself (Sukma et al., 2022). Corporate Social Responsibility (CSR) is a form of company effort in carrying out Social Responsibility to the community which indicates that the company is not only profit oriented in running its operations, but also ensures that its business activities are in line with social and environmental values and norms. The discussion in this study is limited to the analysis of the application of GRI standards based on the sustainability reports of three construction sector companies on the Indonesia Stock Exchange. The analysis is limited to the 2023 Sustainability Report of each company. Formulation of the problem

1. How is the approach and determination of material topics used in compiling a Sustainability Report?
2. How do companies make disclosures on material topic standards?
3. Does the company use Independent Assurance services to publish its Sustainability Report?

LITERATURE REVIEW

Global Reporting Initiative

GRI is an organization that provides a sustainability reporting framework that can be adopted by all types of organizations in any country. GRI was founded in 1997 by the American non-profit organization, the Coalition for an Environmentally Responsible Economy (CERES) and the Telus Institute, with support from the United Nations Environment Programme (UNEP). GRI is a multi-stakeholder, network-based organization. The central secretariat is headquartered in Amsterdam, the Netherlands (Nasution et al., 2018). The secretariat serves as a liaison for coordinating the activities of various GRI network partners. GRI has regional offices and locations in Australia,

Brazil, China, India, and the United States. This global network includes more than 600 institutional actors and approximately 30,000 core supporters representing various sectors and constitutions. GRI also has strategic partnerships with the United Nations Environment Programme, the United Nations Global Compact, the Organization for Economic Co-operation and Development, and the International Organization for Standardization. (Safitri 2019, Kholis, 2018)

The GRI Standards are a globally proven method for public reporting on a range of economic, environmental and social impacts. Sustainability reports developed based on the GRI Standards provide information about an organization's positive or negative contribution to sustainable development. The GRI Standards are a consistent, modular system of standards. Three sets of standards support the reporting process: GRI Universal Standards. Applicable to all organizations. GRI Sector Standards apply to specific sectors (Siregar et al., 2022). Each GRI Topic Standard contains relevant information on a specific topic. Using these criteria to identify important (relevant) issues will help organizations achieve sustainable development.

The purpose of sustainability reporting using the GRI Sustainability Reporting Standards (GRI Standards) is to ensure transparency about how an organization contributes or seeks to contribute to sustainable development (Rahmi et al., 2022). The GRI Standards enable organizations to publicly disclose the economic, environmental and social impacts of their major activities, including impacts on human rights, and how the organization addresses those impacts. This increases transparency about the impacts on your organization and strengthens organizational accountability. The standards include disclosures that enable organizations to report information about their impacts consistently and reliably.

This enhances the global comparability and quality of reported information on these impacts, supporting users of the information in making informed judgments and decisions about the organization's impacts and contributions to sustainable development. (globalreporting.org)

According to (Gunawan & Meiden, 2021) Companies in Indonesia usually use the GRI (Global Reporting Initiative) standards for economic, environmental, and social reporting. These standards help organizations provide a comprehensive picture of their positive and negative impacts on sustainable development, with a focus on material aspects. Reporting according to the GRI Standards includes information on material topics, their impacts, and how these impacts are managed, either using part or all of the standards.

The GRI Standards consist of three universal modules:

1. GRI 101 Foundation: The basis for using this standard, includes reporting principles to determine the content and quality of the report.
 2. GRI 102 General Disclosure: Contains general disclosure requirements about an organization's contextual information and sustainability practices, applicable to all types of organizations.
 3. GRI 103 Management Approach: Describes the method for managing material goods.
- Additionally, there are special modules:
- GRI 200: Economic topics
 - GRI 300: Environmental topics
 - GRI 400: Social topics

The GRI Standards set out what must be reported (requirements), what is recommended (recommendations), and reporting guidance, providing flexibility for companies in preparing their sustainability reports.

Sustainability Report

A company's commitment to the environment is through the disclosure of a sustainability report (Sustainability Report). Sustainability Report is a publication of information that reflects the company's performance from an economic, environmental and social perspective. especially for investors. Sustainability report contains financial and non-financial performance. In Indonesia, sustainability reports are still voluntary and companies have standard rules for disclosing the report, either voluntarily or not. On the other hand, companies that publish sustainability reports voluntarily or not have uniform rules regarding their disclosure. However, on the other hand, companies can maintain their reputation (good name), increase firm value, and shareholder trust.

The preparation of sustainability reports is regulated by the Global Reporting Initiative (GRI) based in Amsterdam, Netherlands. GRI is an independent international group that contributes to the GRI pioneer, which is used as a sustainability report standard. In the business world around the world, GRI reveals its impacts related to important sustainable issues, including governance, human rights, climate change, and social welfare (globalreporting.org)

Therefore, it is hoped that this will bring economic, environmental and social benefits to all parties involved. (Wardoyo 2022)

Sustainability reporting is a form of reporting that combines financial, social, environmental and governance information into one integrated document for stakeholders. Its purpose is to help companies plan, report and disclose their responsibilities and commitments to managing economic, social and environmental aspects. By publishing this report, companies demonstrate transparency in resource management and provide accountability to internal and external stakeholders for long-term sustainability goals. (PURNAMASARI et al., 2022)

One of the main objectives of the company is to maintain the continuity of the company by increasing shareholder value. Several steps have been taken to increase shareholder value. One of them is to create a positive image of the company in the eyes of stakeholders through the disclosure of sustainability reports. Disclosure of the company's sustainability report informs the company's concern for the environment & society. This is in sync with the legitimacy theory which states that stakeholders want certainty that the company has carried out its operational activities according to the applicable budget in the community environment. Disclosure of sustainability reports is an important aspect, but in Indonesia it is still voluntary. This is different from Singapore, where the Singapore Stock Exchange since 2017 has required disclosure of sustainability reports, making it a standard that companies must comply with. (Sembiring & Hardiyanti, 2020)

Previous Research

Sustainability report is a report of company results that measure, disclose, and monitor changes to create sustainable operations. Companies that do not disclose sustainability reports cannot measure changes that occur in the company and will hinder the company's performance. Previously, sustainability reporting was not required for every company. Along with changes in government and increasing demands, this report has become mandatory as a form of corporate accountability and transparency. As one form of corporate transparency, sustainability reporting can use the Global Reporting Initiative Standards. (Tantri et al., 2023)

According to research by Tantri et al. 2024, CSR in general explains that if companies increase their spending and disclose information related to CSR, then their responsibility towards the environment, employees, and society in particular increases. In other words, the impact of a company's CSR disclosure is that it can achieve its goal of maximizing profits and in line with sustainable development goals.

According to a KPMG survey in 2020, 80% of the top 100 companies in 52 countries have implemented sustainability reporting standards. On the other hand, the results of a GlobeScan and GRI survey of 27,000 respondents from 27 countries showed that 51% of respondents believe that publishing sustainability reports can increase public trust. (Prihandono & S. Yuniarti, 2023)

RESEARCH METHODS

Research Design

This research is a descriptive study based on observations made on the sustainability reports of three companies listed on the Indonesia Stock Exchange. The research refers to the 2021 GRI Standards. The 2021 GRI Standards officially came into effect on January 1, 2023. This standard is an update of the GRI Standards 2016 which are no longer valid. Sustainability reporting according to the GRI standards provides a comprehensive picture of an organization's material issues, related impacts, and how to manage those impacts. Organizations can also report specific information using all or part of the GRI standards.

Selected Companies

This study limits the subjects studied to the construction sector in the Indonesia Stock Exchange, the companies studied are represented by PT. Wijaya Karya Tbk, PT. Adhi Karya Tbk, and PT. Pembangunan Perumahan Tbk.

List of Selected Companies

Table 1. Data of Companies Studied

Sector	Company Code	Company name
--------	--------------	--------------

Construction	WIKA	PT.
Construction	ADHI	PT.
Construction	PTPP	PT. Housing Development (Persero) Tbk

Source: Normala, Aurora, & Lestari (2024)

Data collection

Data collection was carried out through the Global Reporting Initiative (GRI) website, the Indonesia Stock Exchange (IDX) website, and the websites of selected companies to obtain Sustainability Report documents.

RESULTS AND DISCUSSION

Results

In preparing a sustainability report, standards are needed as a guide in the process of preparing the report. The 2021 GRI Standard is a guideline used as a guideline in preparing the 2023 sustainability report at PT. Wijaya Karya Tbk, PT. Adhi Karya Tbk, and PT. Pembangunan Perumahan Tbk. The use of the GRI Standard is not a requirement, because in addition to using GRI, companies can also use other guidelines such as the Sustainability Accounting Standard Board (SASB) Standard. However, SASB is more intended for companies that have an interest in providing sustainability information to institutional investors.

To use the GRI Standards, an organization can use the GRI Standards as a set to prepare a sustainability report in accordance with the Standards (comprehensive option) or use selected Standards to report specific information (core option). The core option is suitable for companies that want to report certain disclosures, but do not want to explain more fully about material topics and their impacts. PT. Wijaya Karya Tbk, PT. Adhi Karya Tbk, and PT. Pembangunan Perumahan Tbk prepare sustainability reports with the comprehensive option and have determined the basis for determining material topics.

Discussion

Overview of the Company's Business Fields

PT Wijaya Karya Tbk (WIKA) is one of the BUMN (State-Owned Enterprises) in Indonesia that operates in various business sectors, especially in the construction and infrastructure sectors. WIKA's business activities are focused on optimizing five business sectors:

- Investments include Energy (Renewable Energy), Infrastructure, and Water Infrastructure;
- Real estate and real estate, real estate and real estate development and property management;
- Infrastructure and Buildings, consisting of civil engineering, structural engineering, and steel structures;
- Energy and industrial projects, including EPCC projects, power generation and renewable energy;
- Industry: WIKA's Industrial Division produces precast concrete components, construction, electric vehicles and asphalt manufacturing. Becoming a civil and building contractor company. (<https://www.wika.co.id/>)

PT Adhi Karya Tbk (ADHI) is a construction and infrastructure company engaged in various fields, including the construction of buildings, roads, bridges, and other large infrastructure projects. In addition, the company is also involved in property development, transportation, and energy. As a state-owned company, ADHI has extensive experience in handling large projects, both in the public and private sectors, and contributes to infrastructure development in Indonesia. With the economic performance above, the direct economic value generated, the economic value distributed, and the economic value stored can be conveyed (<https://www.adhi.co.id/>)

PT Pembangunan Perumahan Tbk (PTPP) is a construction and property developer company engaged in various sectors, including building construction, infrastructure, and housing. In addition, PTPP is also involved in the development of commercial properties, large construction projects, and public infrastructure such as toll roads, bridges, and transportation facilities. As one of the state-owned companies in Indonesia, PTPP has experience in managing large-scale projects and contributing to infrastructure and property development throughout Indonesia (<https://www.ptpp.co.id/>).

Implementation of GRI Standards

PT. Wijaya Karya Tbk in implementing the GRI Standards uses the Consolidated GRI Standards 2021 and GRI G4 Sector Disclosures Construction and Real Estate to prepare sustainability reports with comprehensive options. Regarding material topics, the company has determined that the 2023 material topics are different from the 2022 material topics. However, there are 3 (three) out of 6 (six) that are different from the 2022 material topics, namely Waste, Emissions, and Training and Education. Changes in material topics in 2023 are due to the alignment of the significance of the impact of sustainability issues which are priorities to be disclosed based on input from stakeholders. The prioritization stage resulted in 6 (six) material topics that are the Company's main concerns and which will be reported in the 2023 sustainability report, including: occupational health and safety, waste, emissions, economic performance, anti-corruption, and training and education.

PT.Adhi Karya Tbk in implementing the GRI Standards uses GRI Standards 2021 and GRI G4 Sector Disclosures Construction and Real Estate 2013 to prepare sustainability reports with comprehensive options. Regarding material topics, Based on internal and external reviews, there is one topic in 2022 that is no longer set as a topic in the 2023 report, namely the topic of environmental compliance. This is because GRI Universal Standards 2021 has included this compliance in general disclosures. The list of material topics in the 2023 report totals 15 topics after being reviewed by internal and external stakeholders and has been approved by the Board of Directors.

PT. Pembangunan Perumahan Tbk in implementing the GRI Standards uses the 2021 GRI Standards as a set to prepare sustainability reports in accordance with the Standards, with a comprehensive option. Regarding material topics, the company has determined that in the 2023 sustainability report there are no changes in material topics compared to the previous year. The determination of no changes in material topics was made after the company conducted a review of the 2022 material topics by involving internal and external stakeholders including consultants and report users in accordance with the 2021 GRI Standards Universal guidelines. In addition to continuing to identify and assess impacts, this review also allows the company to ensure that the material topics in this report represent the most significant impacts during the reporting year.

Universal Topic & Topic Specific Standard Disclosures

PT. Wijaya Karya Tbk, PT. Adhi Karya Tbk, and PT. Pembangunan Perumahan Tbk in SR 2023 made disclosures for universal standards including general disclosures and management disclosures.

Analysis of the Level of Disclosure of Economic Topics

Table 2. GRI Standard 2021 Economic Topic Disclosures

GRI Economic Topics 200	STANDARD	WIKA		ADHI		PTPP	
GRI 201 : Economic Performance 2016	4	4	100.00%	4	100.00%	3	75.00%
GRI 202 : Market Presence 2016	2	0	0.00%	2	100.00%	0	0.00%
GRI 203 : Indirect Economic Impacts 2016	2	2	100.00%	2	100.00%	2	100.00%
GRI 204 : Procurement Practices 2016	1	1	100.00%	1	100.00%	1	100.00%
GRI 205: Anti Corruption 2016	3	3	100.00%	3	100.00%	0	0.00%
GRI 206: Anti-Competitive Behavior 2016	1	0	0.00%	0	0.00%	0	0.00%
GRI 207 : Tax 2019	4	0	0.00%	0	0.00%	0	0.00%
Total	17	10	58.82%	12	70.59%	6	35.29%

Source: Normala, Aurora, & Lestari (2024)

PT. Wijaya Karya Tbk has an average disclosure of GRI 2021 standard economic topics of 58.82% with a total of 4 disclosures covering economic performance, indirect economic impacts, procurement practices, and anti-corruption.

PT. Adhi Karya Tbk has an average disclosure of GRI 2021 standard economic topics of 70.59% with a total of 5 disclosures covering economic performance, market presence, indirect economic impacts, procurement practices, and anti-corruption.

PT. Pembangunan Perumahan Tbk has an average disclosure of standard economic topics in 2021 of 35.29% with a total of 3 disclosures covering economic performance, indirect economic impacts, and procurement practices.

Analysis of Environmental Topic Disclosure Level

Table 3. GRI Standard 2021 Environmental Topic Disclosures

GRI Economic Topics 300	STANDARD	WIKA		ADHI		PTPP	
GRI 301 : Materials 2016	3	0	0.00%	3	100.00%	2	66.67%
GRI 302 : Energy 2016	5	5	100.00%	5	100.00%	2	40.00%
GRI 303 : Water and Effluents 2018	5	4	80.00%	5	100.00%	3	60.00%
GRI 304 : Biodiversity 2016	4	0	0.00%	0	0.00%	0	0.00%
GRI 305 : Emissions 2016	7	7	100.00%	7	100.00%	4	57.14%
GRI 306 : Waste 2020	5	5	100.00%	5	100.00%	5	100.00%
GRI 308: Supplier Environmental Assessment 2016	2	0	0.00%	0	0.00%	0	0.00%
Total	31	21	67.74%	25	80.65%	16	51.61%

Source: Normala, Aurora, & Lestari (2024)

PT. Wijaya Karya Tbk has an average disclosure of GRI 2021 standard environmental topics of 67.74% with a total of 4 disclosures covering energy, water and effluent, emissions, and waste.

PT. Adhi Karya Tbk has an average disclosure of GRI 2021 standard environmental topics of 80.65% with a total of 5 disclosures covering materials, energy, water and effluent, emissions, and waste.

PT. Pembangunan Perumahan Tbk has an average disclosure of standard environmental topics in 2021 of 51.61% with a total of 5 disclosures covering materials, energy, water and effluent, emissions, and waste.

Analysis of Social Topic Disclosure Level

Table 4. GRI Standard Social Topic Disclosures 2021

GRI Economic Topics 400	STANDARD	WIKA		ADHI		PTPP	
GRI 401: Employment 2016	3	3	100.00%	3	100.00%	3	100.00%
GRI 402: Labor/Management Relations 2016	1	1	100.00%	0	0.00%	0	0.00%
GRI 403 : Occupational Health and Safety 2018	10	10	100.00%	10	100.00%	10	100.00%
GRI 404 : Training and Education 2016	3	3	100.00%	3	100.00%	3	100.00%
GRI 405: Diversity and Equal Opportunity 2016	2	2	100.00%	0	0.00%	0	0.00%
GRI 406: Non-Discrimination 2016	1	0	0.00%	0	0.00%	0	0.00%
GRI 407: Freedom of Association and Collective Bargaining 2016	1	0	0.00%	0	0.00%	0	0.00%
GRI 408 : Child Labor 2016	1	0	0.00%	0	0.00%	0	0.00%
GRI 409: Forced or Compulsory Labor 2016	1	0	0.00%	0	0.00%	0	0.00%
GRI 410 : Security Practices 2016	1	0	0.00%	0	0.00%	0	0.00%
GRI 411: Rights of Indigenous Peoples 2016	1	0	0.00%	0	0.00%	0	0.00%
GRI 413 : Local Communities 2016	2	0	0.00%	2	100.00%	0	0.00%
GRI 414: Supplier Social Assessment 2016	2	0	0.00%	0	0.00%	0	0.00%
GRI 415 : Public Policy 2016	1	0	0.00%	0	0.00%	0	0.00%
GRI 416: Customer Health and Safety 2016	2	2	100.00%	0	0.00%	0	0.00%
GRI 417: Marketing and Labeling 2016	3	0	0.00%	3	100.00%	0	0.00%
GRI 418 : Customer Privacy 2016	1	0	0.00%	0	0.00%	0	0.00%

Total	36	21	58.33%	21	58.33%	16	44.44%
--------------	-----------	-----------	---------------	-----------	---------------	-----------	---------------

Source: Normala, Aurora, & Lestari (2024)

PT. Wijaya Karya Tbk has an average disclosure of GRI 2021 standard social topics of 58.33% with a total of 6 disclosures covering employment, labor/employee relations, occupational health and safety, training and education, diversity and opportunity, customer health and safety.

PT. Adhi Karya Tbk has an average disclosure of GRI 2021 standard environmental topics of 58.33% with a total of 5 disclosures covering employment, occupational health and safety, training and education, local communities, and marketing and labeling.

PT. Pembangunan Perumahan Tbk has an average disclosure of standard environmental topics in 2021 of 44.44% with a total of 3 disclosures covering personnel, occupational health and safety, training and education.

Analysis of the Application of Topic Specific GRI Standards

Table 5. Average Disclosure of Specific Topics

DISCLOSURE	STANDARD	WIKA		ADHI		PTPP	
Economic Topic Disclosure (200)	17	10	58.82%	12	70.59%	6	35.29%
Environmental Topic Disclosure (300)	31	21	67.74%	25	80.65%	16	51.61%
Social Topic Disclosure (400)	36	21	58.33%	21	58.33%	16	44.44%
Total	84	52	61.90%	58	69.05%	38	45.24%

Based on the analysis of the disclosure of economic, environmental, and social topics in the SR 2023 of PT. Wijaya Karya Tbk, PT. Adhi Karya Tbk, and PT. Pembangunan Perumahan Tbk which were prepared with the GRI standard 2021 guidelines, from 84 GRI disclosure standards, the average disclosure of specific topics for PT. WIKA was 61.90%, PT. ADHI was 69.05%, and PT. PP was 45.24%.

Independent Assurance Services

GRI recommends the use of external assurance by an independent third party to ensure the quality and reliability of the information presented in the sustainability report.

PT. Wijaya Karya Tbk uses independent assurance services that are competent in their fields. The Company appointed SR Asia Indonesia to verify the report. The appointment of the independent party was chosen based on the results of management decisions. In addition, the Company ensures that there is no conflict of interest in the report verification process. The verification process is carried out using type 1 and type 2 based on the AA1000 Assurance Standard v.3. The scope of verification is compliance with reporting principles and reporting indicator provisions.

PT. Adhi Karya Tbk does not use independent assurance services for the Sustainability Report it publishes.

PT. Pembangunan Perumahan Tbk has also not used independent assurance services for the published Sustainability Report. However, PTPP guarantees the validity and accuracy of all information disclosures in its reports by cross-checking the conformity of information disclosures with reporting requirements in SEOJK 16/2021 and GRI Standard

CONCLUSION

According to the research results, the three companies that were the subjects of this study have prepared their Sustainability Reports using the GRI standard guidelines by following the four series, namely 100 (Universal standard), 200 (Economic), 300 (Environmental), and 400 (Social). The scope of disclosure will depend on the material topic chosen. However, the three companies have basically attempted reporting based on the principles of determining the content of the report and the principles of determining the quality of the report.

PT. Wijaya Karya Tbk, PT. Adhi Karya Tbk, and PT. Pembangunan Perumahan Tbk in SR 2023 have made disclosures for universal standards including general disclosures and management disclosures. Meanwhile, for specific

topic standards, PT. Wijaya Karya Tbk made disclosures of 61.90%, PT. Adhi Karya Tbk 69.05%, and PT. Pembangunan Perumahan Tbk 45.24%.

to ensure the quality and reliability of the information presented in the sustainability report. PT. Wijaya Karya Tbk uses independent assurance services that are competent in their fields. While PT. Adhi Karya Tbk and PT. Pembangunan Perumahan Tbk have not used independent assurance services for the Sustainability Reports issued.

REFERENCE

- Afrizal, Safelia, N., (2023). Determinants of carbon emission disclosure and sustainability reporting and their implications for investors' reactions: The case of Indonesia and Malaysia. *International Journal of Management and Sustainability*, 12(2), 271-288. DOI: 10.18488/11.v12i2.3375
<https://ideas.repec.org/a/pkp/ijomas/v12y2023i2p271-288id3375.html>
- Bursa Efek Indonesia. (2024). Home. Bursa Efek Indonesia. <https://www.idx.co.id/> Accessed November 28, 2024
- Global Reporting Initiative. (2024). Home. *Global Reporting Initiative*. <https://www.globalreporting.org/> Accessed November 28, 2024
- Gunawan, P., & Meiden, C. (2021). Analisis Kepatuhan Sustainability Reporting PT. Aneka Tambang, Tbk. Berdasarkan GRI Standards, AA1000AP dan AA1000AS. *Jurnal Ilmu Komputer Dan Bisnis*, 12(1), 187–195.
<https://doi.org/10.47927/jikb.v12i1.104>
- Kholis, A., Rambe, P., & Muda, I. (2020). Determining Factors for Disclosure of Sustainability Reporting With Inclusive Stakeholder Models In Indonesia Public Company Issuer. *International Journal of Management (IJM)*, 11(3), 657–667.
https://iaeme.com/MasterAdmin/Journal_uploads/IJM/VOLUME_11_ISSUE_3/IJM_11_03_067.pdf
- Nasution, A. A., Wardayani, Z. A., (2018). Influence of International Financial Reporting Standards Application on Education Accounting in Indonesia. *Chinese Business Review*, 17(2), 76-83.
<https://davidpublisher.com/Public/uploads/Contribute/5acd61a7e56e6.pdf>
- Prihandono, I., & S. Yuniarti, D. (2023). Indonesia Sustainability Reporting Standard: What Needs to be Improved? *Padjadjaran Journal of International Law*, 7(1), 1–23. <https://doi.org/10.23920/pjil.v7i1.1159>
- PT Adhi Karya (Persero) Tbk. (2024). <https://adhi.co.id/> Accessed November 28, 2024
- PT Pembangunan Perumahan (Persero) Tbk. (2024). <https://www.ptpp.co.id/> Accessed November 28, 2024
- PT Wijaya Karya (Persero) Tbk. (2024). <https://www.wika.co.id/> Accessed November 28, 2024
- PURNAMASARI, S., Trimeiningrum, E., & Trimeiningrum, E. (2022). Analisis Dampak Pengungkapan Sustainability Report Terhadap Nilai Perusahaan. *Jurnal Ekonomi, Manajemen Akuntansi Dan Perpajakan (Jemap)*, 5(1), 45–61. <https://doi.org/10.24167/jemap.v5i1.3722>
- Rahmi, N.U, Susanto, A, (2022). Implications of Corporate Social Responsibility (CSR) on the Financial Performance of Companies Receiving the Sustainability Reporting Award (SRA). *Journal of Positive School Psychology*. 6(3). 2443–2450. <https://journalppw.com/index.php/jpsp/article/view/1976/1157>
- Sembiring, E. E., & Hardiyanti. (2020). Pengaruh Struktur Kepemilikan dan Pengungkapan Sustainability Report Terhadap Nilai Perusahaan di Indonesia dan Singapura. *Jurnal Akuntansi Keuangan Dan Bisnis*, 13(2), 156–163.
<https://jurnal.pcr.ac.id/index.php/jakb/>
- Singa, H. G., Kesuma, N. T., Syahputri, D. R. A., Ginting, R. W., (2022). The Presentation And Reporting Model Of Sustainability Reporting On State Owned Drug Companies. *Journal of Pharmaceutical Negative Results*, 6700-6706. <https://www.pnrjournal.com/index.php/home/article/view/5347>
- Siregar, P. A., Tambunan, R. P., Puspito, E., (2022). Sustainability Reporting In The Health Sector By Considering Economic, Environmental, Social And Governance (Esg) Aspects In The Kalbe Farma Pharmaceutical Industry. *Journal of Pharmaceutical Negative Results*, 6688-6695.
<https://www.pnrjournal.com/index.php/home/article/view/5345>
- Sukma, N. M., Limbong, S. H., Asnur, S. A., Sinaga, L. R., (2022). Building Resilience Through Sustainable Business: The Implementation Of Stakeholder Theory For The Sustainability Reporting Of BTPN Bank. *Journal of Pharmaceutical Negative Results*, 6647-6655.
<https://www.pnrjournal.com/index.php/home/article/view/5341>
- Tantri, S. F., Ekasari, K., & Wahyuni, H. (2023). Are Cement Sector Companies Listed on Indonesia Stock Exchange (IDX) Compliant in Sustainability Reports Disclosure? *Journal of Applied Business, Taxation and Economics Research*, 2(4), 358–369. <https://doi.org/10.54408/jabter.v2i4.161>

ATTACHMENT

2021 GRI Standard Consolidated Index

STANDARD	GRI STANDARD 2021 DISCLOSURE	WIKA	ADHI	PP
ECONOMIC TOPICS				
GRI 201 : Economic Performance 2016				
GRI 201-1	Direct economic value generated and distributed	√	√	√
GRI 201-2	Financial implications and other risks and opportunities due to climate change	√	√	-
GRI 201-3	Defined benefit pension plan obligations and other pension plans	√	√	√
GRI 201-4	Financial assistance provided by the government	√	√	√
GRI 202 : Market Presence 2016				
GRI 202-1	Ratio of entry-level employee standard wages by gender to regional minimum wages	-	√	-
GRI 202-2	Proportion of senior management coming from local communities	-	√	-
GRI 203 : Indirect Economic Impacts 2016				
GRI 203-1	Proven corruption incidents and actions taken	√	√	√
GRI 203-2	Significant indirect economic impact	√	√	√
GRI 204 : Procurement Practices 2016				
GRI 204-1	Proportion of spending on local suppliers	√	√	√
GRI 205: Anti Corruption 2016				
GRI 205-1	Operations deemed to have risks related to corruption	√	√	-
GRI 205-2	Communication and training on anti-corruption policies and procedures	√	√	-
GRI 205-3	Proven corruption incidents and actions taken	√	√	-
GRI 206: Anti-Competitive Behavior 2016				
GRI 206-1	Legal measures for anti-competitive behavior, anti-trust and monopolistic practices	-	-	-
GRI 207 : Tax 2019				
GRI 207-1	Approach to tax	-	-	-
GRI 207-2	Tax risk governance, control and management	-	-	-
GRI 207-3	Stakeholder engagement and management of tax-related concerns	-	-	-
GRI 207-4	Country by country report	-	-	-
ENVIRONMENTAL TOPIC				
GRI 301 : Materials 2016				
GRI 301-1	Materials used are based on weight or volume	-	√	√
GRI 301-2	Recycled input materials used	-	√	√
GRI 301-3	Reclaimed products and their packaging materials	-	√	-
GRI 302 : Energy 2016				
GRI 302-1	Energy consumption in organizations	√	√	√
GRI 302-2	Energy consumption outside the organization	√	√	-
GRI 302-3	Energy intensity	√	√	-
GRI 302-4	Reduction of energy consumption	√	√	√
GRI 302-5	Reducing energy requirements for products and services	√	√	-
GRI 303 : Water and Effluents 2018				
GRI 303-1	Interaction with water as a shared resource	√	√	√

**Practices for Long-Term Business Success to Integrate Management Control and Sustainability:
Control Systems, Performance Improvement, Governance, Cost Management, and Sustainability in the Corporate World**

GRI 303-2	Management of impacts related to water release	-	√	√
GRI 303-3	Water withdrawal	√	√	√
GRI 303-4	Water discharge	√	√	-
GRI 303-5	Water consumption	√	√	-
GRI 304 : Biodiversity 2016				
GRI 304-1	Operational locations owned, leased, managed, or adjacent to protected areas and areas of high biodiversity value outside protected areas.	-	-	-
GRI 304-2	Significant impacts of activities, products and services on biodiversity	-	-	-
GRI 304-3	Protected or restored habitats	-	-	-
GRI 304-4	IUCN red list species and national conservation list species with habitats within areas affected by operations	-	-	-
GRI 305 : Emissions 2016				
GRI 305-1	Direct GHG emissions (scope 1)	√	√	√
GRI 305-2	Indirect energy (scope 2)	√	√	√
GRI 305-3	Other indirect GHG emissions (scope 3)	√	√	√
GRI 305-4	GHG emission intensity	√	√	-
GRI 305-5	Reduction of GHG emissions	√	√	√
GRI 305-6	Ozone depleting substances (ODS) emissions	√	√	-
GRI 305-7	Nitrogen oxides (Nox), sulfur oxides (Sox), and other significant air emissions	√	√	-
GRI 306 : Waste 2020				
GRI 306-1	Waste generation and significant impacts related to waste	√	√	√
GRI 306-2	Management of significant impacts related to waste	√	√	√
GRI 306-3	Waste generated	√	√	√
GRI 306-4	Waste diverted from landfill	√	√	√
GRI 306-5	Waste is directed to disposal	√	√	√
GRI 308: Supplier Environmental Assessment 2016				
GRI 308-1	Selection of new suppliers using environmental criteria	-	-	-
GRI 308-2	Negative environmental impacts in the chain	-	-	-
SOCIAL TOPICS				
GRI 401: Employment 2016				
GRI 401-1	New employee recruitment and employee turnover	√	√	√
GRI 401-2	Benefits provided to permanent employees that are not provided to temporary or part-time employees	√	√	√
GRI 401-3	Maternity leave	√	√	√
GRI 402: Labor/Management Relations 2016				
GRI 402-1	Minimum notice period regarding operational changes	√	-	-
GRI 403 : Occupational Health and Safety 2018				
GRI 403-1	Occupational health and safety management system	√	√	√
GRI 403-2	Hazard identification, risk assessment and incident investigation	√	√	√
GRI 403-3	Occupational health services	√	√	√
GRI 403-4	Worker participation, consultation and communication on occupational health and safety	√	√	√
GRI 403-5	Worker training on occupational health and safety	√	√	√
GRI 403-6	Improving the quality of occupational health	√	√	√

**Practices for Long-Term Business Success to Integrate Management Control and Sustainability:
Control Systems, Performance Improvement, Governance, Cost Management, and Sustainability in the Corporate World**

GRI 403-7	Prevention and mitigation of occupational safety and health impacts that are directly related to business relationships	√	√	√
GRI 403-8	Workers are covered by the occupational health and safety management system	√	√	√
GRI 403-9	Work accident	√	√	√
GRI 403-10	Occupational disease	√	√	√
GRI 404 : Training and Education 2016				
GRI 404-1	Average training per year per employee	√	√	√
GRI 404-2	Programs to improve employee skills and transition assistance programs	√	√	√
GRI 404-3	Percentage of employees who receive regular reviews of performance and career development	√	√	√
GRI 405: Diversity and Equal Opportunity 2016				
GRI 405-1	Diversity of governance bodies and employees	√	-	-
GRI 405-2	Ratio of basic salary and remuneration of women to men	√	-	-
GRI 406: Non-Discrimination 2016				
GRI 406-1	Incidents of discrimination and corrective actions taken	-	-	-
GRI 407: Freedom of Association and Collective Bargaining 2016				
GRI 407-1	Operations and suppliers where the right to freedom of association and collective bargaining may be at risk	-	-	-
GRI 408 : Child Labor 2016				
GRI 408-1	Operations and suppliers at significant risk of child labor incidents	-	-	-
GRI 409: Forced or Compulsory Labor 2016				
GRI 409-1	Operations and suppliers at significant risk of incidents of forced or compulsory labor	-	-	-
GRI 410 : Security Practices 2016				
GRI 410-1	Security officers trained in human rights policies or procedures	-	-	-
GRI 411: Rights of Indigenous Peoples 2016				
GRI 411-1	Incidents of violations involving the rights of indigenous peoples	-	-	-
GRI 413 : Local Communities 2016				
GRI 413-1	Operations with local community involvement, impact assessments, and development programs	-	√	-
GRI 413-2	Operations that actually or potentially have significant negative impacts on local communities	-	√	-
GRI 414: Supplier Social Assessment 2016				
GRI 414-1	Selection of new suppliers using social criteria	-	-	-
GRI 414-2	Negative social impacts in the supply chain and actions taken	-	-	-
GRI 415 : Public Policy 2016				
GRI 415-1	Political contributions	-	-	-
GRI 416: Customer Health and Safety 2016				
GRI 416-1	Health and safety impact assessment of various product and service categories	√	-	-
GRI 416-2	Incidents of non-compliance relating to the health and safety impacts of products and services	√	-	-
GRI 417: Marketing and Labeling 2016				

**Practices for Long-Term Business Success to Integrate Management Control and Sustainability:
Control Systems, Performance Improvement, Governance, Cost Management, and Sustainability in the Corporate World**

GRI 417-1	Requirements for labeling and information on products and services	-	√	-
GRI 417-2	Incidents of non-compliance related to product and service information and labeling	-	√	-
GRI 417-3	Incidents of non-compliance related to marketing communications	-	√	-
GRI 418 : Customer Privacy 2016				
GRI 418-1	Substantiated complaints regarding violation of customer privacy and loss of customer data	-	-	-

Source: S. Normala (2024)

NCM Publishing House Certificate

Doğrulama Kodu : f70b63cb-4c05-4132-bec8-804f1f8a5950

**T.C.
KÜLTÜR VE TURİZM BAKANLIĞI**

SERTİFİKA

FİRMA ADI : NCM MİMARLIK MÜHENDİSLİK İNŞ. SAN. TAAH. TİC. LTD. ŞTİ.
ADRESİ : ESENTEPE MAHALLESİ GÜVERCİN(160) SOKAK ŞENOCAK APARTMANI 2A
NİLÜFER/BURSA NİLÜFER / BURSA
VERGİ DAİRESİ : NİLÜFER VERGİ DAİRESİ MÜD.
VERGİ NUMARASI : 6270313993
FAALİYET ALANI : DAĞITIM (KİTAP, MÜZİK VB), İTHALAT, SATIŞ, YAYINEVİ
VERİLİŞ NEDENİ - TARİHİ : Yeni Sertifika Başvurusu - 30.07.2021

İş bu sertifika açık unvan ve adresi yazılı olan işyeri, 5846 sayılı Fikir ve Sanat Eserleri kanunu uyarınca yukarıda belirlenen alan/alanlara ilişkin faaliyet gösterir.

SERTİFİKA NO
51898

GEÇERLİLİK TARİHİ
30.07.2021 - 30.07.2025

e-İmzalıdır
Dr. Kamil ÖZER
Vali a.
İl Müdürü



Editor

Mr. Lawrence Walambuka



Lawrence Walambuka holds BA international Relations and BA Honours in International politics and currently doing Masters in international politics at University of South Africa. Lawrence is an award winner, second runner up in the College of humanities for the 11th Annual University of South Africa Student and Innovation Showcasing in November/December 2023. The author

is an analytically-minded international relations specialist who has a strong focus on strategic analysis of foreign markets to help realize organizational goals, ability to accurately assess foreign laws, regulations, sociopolitical and socioeconomic factors and their potential impact on organizational goals. Experience in designing public relations strategies in foreign markets for true global involvement. He has a thorough understanding of South Africa's constitution and other statutory instruments. And experienced in lecturing, has Passion for Research, business management, accounting and financial management and worked in diverse sectors including construction, retail, agriculture, government parastatals, workforce solutions and education. Lawrence has been in South African education sector since 2011 as a lecturer and Head of Department of Commerce and academic manager/campus manager since 2020 to date. His focus has been on the meaning, construction and practice of leadership in Higher Education in South Africa. He has been an active practitioner in the Higher Education Sector for over 12 years. He has risen from the ranks of being a Lecturer to that of Senior Lecturer, Head of Commerce Depart and Campus Manager in a multi-campus context of Private College set up. Lawrence has a record of accomplishments in managing complex departments, which include student affairs, academic operations, marketing, finance and health and safety in a large Multi- Campus Private Colleges. During his tenure in higher education, he had a privilege of being exposed to the higher education regulatory environment as a campus manager. A major focus of the Campus Manager during his tenure was on transformation and ensuring improvements in the quality of the student experience in all campuses. In the DHET management of Private colleges, as campus manager: he was responsible for Monitoring Quality Assurance of all examination procedures and implementing DHET, CHE, QCTO and SETA policies.