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A Beyond Budgeting Approach to Sustainable Development of MSMEs in Educational Pottery Tourism in Plumpungrejo

Diana Elvianita Martanti[1*], Alreiska Roudlotul Hikmah[2], Anik Winarti[3]
Universitas Islam Balitar, Indonesia
Corresponding Author: Diana Elvianita Martanti elvianitadiana@gmail.com

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A B S T R A C T

This study examines the application of the Beyond Budgeting (BB) approach as an adaptive budgeting solution to improve business sustainability. This research method is qualitative with a case study design on two pottery MSMEs in Plumpungrejo, namely*Mr. Burhan's Pottery World Educational Tour*and another Pokdarwis group. The results indicate that current budgeting practices are ad-hoc: production cost calculations exclude several important components (e.g., fuel, depreciation), and target setting is based on estimates without formal planning. MSME managers are not yet familiar with rolling forecast mechanisms or market-based evaluations. However, they recognize the importance of responding quickly to market fluctuations (e.g., surges in pottery demand) and are open to decentralizing decision-making. The application of Beyond Budgeting principles such as relative targets, business unit autonomy, information transparency, and holistic performance evaluation has the potential to increase operational agility and product innovation.

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INTRODUCTION

Plumpungrejo Village (Kademangan District, Blitar Regency) is a center of pottery craftsmanship, a cultural heritage passed down through generations. Approximately 70–80% of the village's population works as pottery artisans. Their products range from simple kitchen utensils to interior decorations, catering to both domestic and export markets. Since 2018, Plumpungrejo has been promoted as a pottery educational tourism village, where visitors can learn how to shape and color pottery under the guidance of local artisans. This initiative aims not only to increase the income of artisans but also to preserve cultural traditions and empower the community through tourism awareness groups (Pokdarwis). Creative economic empowerment programs such as the BRILiaN Village program also support the development of this area.

Despite their significant social and economic potential, pottery MSMEs face financial management challenges. Most still employ minimal or even informal traditional budgeting practices, considered complex for small businesses. In practice, annual budgets are prepared haphazardly or not at all, rarely serving as an effective control tool. Ideally, budget information should serve as operational guidelines and for monitoring business performance. Various studies have shown that the failure of formal budgeting is often linked to MSME failure. However, traditional budgeting also has drawbacks: its rigid annual cycle makes it difficult to adapt to demand dynamics, is time-consuming and costly, and encourages centralized decision-making that stifles innovation.

In an increasingly dynamic business context, more adaptive budgeting alternatives are needed. Beyond Budgeting (BB) has emerged as an alternative budgeting concept that overcomes this rigidity. This concept replaces the fixed annual budget cycle with a continuous planning process: performance targets are set relative to market conditions, financial projections are made on a rolling basis, and resource allocation is dynamic. The core principles of BB emphasize decentralizing decisions to operational teams and assessing performance based on external benchmarks (e.g., customer satisfaction, market share). In large corporate settings, studies have shown that BB increases organizational flexibility and resilience, especially during uncertain market conditions. For example,*Handelsbanken*in Sweden successfully removed annual budgets from the 1970s and empowered branches to set local sales targets.

The application of Beyond Budgeting in MSMEs, particularly in the cultural tourism sector, remains scarcely researched. For example, research by Alhalawi and Dammak (2020) found that the adoption of Beyond Budgeting in MSMEs in Iraq improved financial and non-financial performance, although implementation in MSMEs in general remains limited. In Indonesia, research related to Beyond Budgeting in MSMEs is still minimal; most focuses on macro models or other industrial sectors. Valdiansyah & Augustine (2022) even reported an insignificant effect of Beyond Budgeting on MSME performance in general, indicating the need for exploration in the local context. To address this gap, this study examines the case of "The Beyond Budgeting Approach for the Sustainable Development of Pottery Craft Educational Tourism MSMEs in Plumpungrejo."

The research problem formulation is: (1) What are the characteristics of current budgeting practices in educational pottery tourism MSMEs in Plumpungrejo? (2) How can the application of the Beyond Budgeting principle be adapted to support the sustainability of pottery craft businesses? The research objectives are to describe budgeting problems in the field, analyze the Beyond Budgeting concept related to craft MSMEs, and evaluate the potential for implementing BB to increase business adaptability and innovation within a sustainability framework. The Beyond Budgeting conceptual approach is combined with a field case study using primary data from observations and interviews in*Mr. Burhan's Pottery World*and other Plumpungrejo Tourism Groups.

THEORETICAL REVIEW

Beyond Budgeting

Beyond Budgeting was introduced as a radical solution to the rigidity of traditional budgeting. According to the Chartered Institute of Management Accountants (CIMA), Beyond Budgeting is the idea that companies move beyond fixed budgets due to the inherent weaknesses of budgeting systems, particularly for performance contracts. Its core principles emphasize decentralization, transparency, and strategic responsiveness. Instead of annual budgets, organizations use*rolling forecasts*and relative targets adjusted to market developments. According to Wardayati et al. (2022), rapid environmental change causes traditional budgeting to become less than optimal, necessitating a BB concept that allows competent parties the freedom to consistently achieve profitability.

The Beyond Budgeting Round Table White Paper outlines 12 BB principles, which can be grouped into several themes. These principles can be summarized as follows:

1. *Decentralization & Unit Autonomy:*Operational teams are empowered to manage resources and make decisions independently without requiring central management approval. This reduces bureaucracy and accelerates response to local conditions.
2. *Relative Target & Rolling Forecast:*Target setting is no longer absolute annual, but rather relative to external benchmarks (e.g., the performance of a comparison group), and using rolling forecasts to continuously adjust plans. This strategy allows for rapid adjustments as demand changes.
3. *Transparency & Shared Value Orientation:*Performance and financial information is made available to all members of the organization, and the establishment of shared long-term values and goals (e.g., cultural preservation, tourist satisfaction) is a key focus. This openness fosters collaboration and a culture of collective innovation.
4. *Holistic Evaluation & Collective Incentives:*Performance is measured not only by budget achievement but also by comparison with market-based targets and non-financial indicators. The incentive system is geared toward

achieving long-term shared success, so bonuses or rewards are not solely based on short-term budget differences.

The concept of Beyond Budgeting is in line with the spirit*new public management*and adaptive management trends. Murifal (2021) explains that in BB, performance targets focus more on non-financial key indicators (e.g., return on equity ratio, free cash flow), and evaluations are conducted regularly and decentralized. Thus, companies are expected to more quickly address market opportunities and new risks.

Sustainability of Educational Tourism MSMEs

Sustainable entrepreneurship encompasses economic, social, and cultural dimensions. The pottery craft educational tourism MSME aims to improve economic well-being while preserving local cultural values. In this context, adaptive financial governance can strengthen business sustainability. A flexible budgeting system supports product innovation (e.g., new motifs or tour packages) and community collaboration, thereby creating long-term value. Previous studies have emphasized that MSMEs typically possess strong social capital (mutual cooperation) but limited managerial capacity. Beyond Budgeting, with its principles of collaboration and team empowerment, can optimize this social capital and avoid losses resulting from rigid planning.

Furthermore, the relevance of Beyond Budgeting for MSMEs is supported by literature demonstrating the benefits of Budgeting in large companies and several studies of MSMEs in other sectors. For example, research in the public and manufacturing sectors confirms that Budgeting improves efficiency, improves decision-making, and increases organizational flexibility. While there have been no specific Budgeting studies on Indonesian tourism MSMEs, research on national insurance companies demonstrates significant potential for implementing Budgeting, where rigid traditional financial reporting leads to losses and makes it difficult to achieve targets. Therefore, Beyond Budgeting is believed to be relevant in responding to the rapidly changing dynamics of the local educational tourism market.

Conceptual Studies

Based on the above review, the research conceptual framework encompasses the implementation of the Beyond Budgeting principle for craft MSMEs. This conceptual approach emphasizes the following key points (see also Martanti et al., 2025):

1. Rolling Forecast and Relative Target.

   MSMEs are expected to replace annual budgeting with flexible planning (e.g., quarterly evaluations) and set relative sales targets based on market trends or benchmark performance. This allows businesses to respond quickly and accurately to fluctuations in tourist numbers or product demand.
2. Decentralization and Unit Autonomy.

   Financial decision-making has been shifted to the business unit or artisan group level. Each team is empowered to adjust the allocation of raw materials, labor, and marketing programs to suit local needs. This reduces bureaucratic barriers and encourages local process and product innovation.

3. Information Transparency and Shared Values
   Performance data (e.g., sales volume, visitor satisfaction) is made available to all business members, and shared goals such as craft preservation and tourist satisfaction are established. This transparency fosters a culture of synergy and shared learning (e.g., sharing production techniques or promotional strategies), strengthening community solidarity.
4. Holistic Performance Evaluation
   Performance measurement refers not only to financial targets but also to market-based targets and customer feedback. Incentives are focused on achieving long-term shared success, not short-term bonuses. This system encourages continuous innovation and a long-term value orientation.

This theoretical study serves as the basis for analyzing field findings (Results and Discussion Section). The Beyond Budgeting framework will be combined with the actual conditions of craft MSMEs in Plumpungrejo to evaluate how these principles can be adopted to improve business sustainability.

METHODOLOGY

This research is qualitative with an exploratory case study approach. The research locations include Mr. Burhan's Pottery World Educational Tourism MSME and a pottery education tourism group in Plumpungrejo Village. A purposive sampling technique was applied because both entities represent traditional craft educational tourism operators that integrate production, education, and local entrepreneurship.

Primary data were collected through participatory observation, in-depth semi-structured interviews, and document analysis. The participatory observation was conducted over a period of three months (July–September 2025) to closely follow the production processes, visitor learning activities, and management practices. A total of eight informants were involved, consisting of two owners/managers (Mr. Burhan and Ms. Farida), three key employees, two part-time tourism guides, and one administrative staff.

Interviews were conducted using a semi-structured guide containing open-ended questions related to budgeting, financial planning, business decision-making, and operational flexibility. The interview technique followed the phenomenological method (Creswell in Susila, 2015), aiming to understand the subjective meanings and experiences of business actors. Each interview lasted between 45 and 90 minutes, and was recorded with the informants' consent using a digital voice recorder and field notes to capture contextual details.

Direct observations complemented the interviews with daily activity logs, including records of production volume, team coordination, and customer interactions. Internal documentation such as simple financial records, material purchase reports, and sales logs were collected to validate and enrich the interview data.

Data analysis employed source triangulation, comparing interview data with documentary evidence and observational findings to identify recurring themes. Thematic coding was carried out manually, with narrative synthesis organized according to the research problem formulation. The analytical narrative was then linked to the Beyond Budgeting theoretical framework and relevant prior studies to draw comprehensive insights into financial management practices in traditional educational tourism MSMEs.

RESULTS

Characteristics of Budgeting Practices of Pottery MSMEs

Interviews and observations revealed that the pottery MSMEs in Plumpungrejo do not yet have a formal budgeting system. All financial planning is carried out simply and based on experience.*Mr. Burhan's Pottery World*states that the determination of the amount of production and expenditure of raw materials is carried out "*needles*"Every time an order is placed, there is no binding written budget. This confirmation is in accordance with research data on cost calculations: several important components such as furnace fuel costs, machine depreciation, and indirect labor wages are explicitly included.*not included*in calculating production costs. In other words, determining the cost of goods manufactured is done by dividing the total cost of direct materials and direct labor per month by the estimated number of products.

Organizationally, the business structure remains simple. The two managers (Mr. Burhan and his wife) are the primary policy makers without a separate financial management team. Administrative and financial tasks are handled solely by the owner, along with five support staff (counter attendants and production assistants). Financial documentation consists solely of manual records of sales and raw material purchases, with no regular reports. Therefore, there is no formal procedure to monitor the difference between actual and planned (hence the*variants*unidentified budget).

In an interview, Ms. Farida (Mr. Burhan's wife) explained that when calculating costs, "actually, we don't just make one type of product in one production. For example, if we only produce owl piggy banks at one time, we can produce around 6,500 products per month." This statement emphasizes that production is targeted generally based on demand forecasts, not based on specific budget figures. Thus,*profitability*business so far has been very dependent on business instincts and*trial-and-error*.

Perceptions of Beyond Budgeting Principles

After the Beyond Budgeting approach was explained to informants, they stated that some BB principles were already aligned with their informal practices. For example, the desire to increase the variety of products and tour packages was expressed as a natural response to varying visitor demand. However, formal readiness to adopt new budgeting mechanisms was still limited. Businesses admitted that they had never used*rolling forecast*or written market benchmarks. Some workers actually see the need for flexibility by adding contract workers during peak periods, even though this decision is made without reference to the initial budget.

Overall, interviews revealed that this MSME is committed to business sustainability and cultural values. For example, the initial motivation for establishing educational tourism was to preserve the pottery heritage while expanding its market share. This is evident in their vision of "producing quality pottery that is appreciated by the community and providing excellent service to visitors." Thus, there is a strong foundation of shared values (service and visitor satisfaction) that can be integrated into a community-based BB framework.*shared values*.

Furthermore, observations confirmed that the artisan teams work communally; day-to-day decisions are often made through small group discussions. BB's principle of trusting the local team makes perfect sense to them. However, several informants cited limited resources (time and accounting knowledge) as a major obstacle to regular reporting. They expressed willingness to learn new methods if provided with basic training.

DISCUSSION

The research results illustrate the gap between conventional budgeting practices of Plumpungrejo MSMEs and the principles of Beyond Budgeting. This finding is consistent with the literature that MSMEs often have*simple financial management*due to limited managerial capacity. As Ms. Farida pointed out, production costs are calculated ad hoc, with some expenses not included in the calculations. This situation suggests that traditional budgets are not yet functioning optimally as a planning and control tool (as Maduekwe & Kamala noted in a previous study).

In the context of Beyond Budgeting theory, these weaknesses can be overcome. The principle*rolling forecast*Relative targets allow MSMEs to adjust production plans when there is a sudden surge in demand. For example, during the COVID-19 pandemic, Plumpungrejo experienced an increase in orders for flower vases (people collecting ornamental plants at home). With static budgeting, MSMEs find it difficult to quickly allocate funds for additional raw materials. Meanwhile, the BB approach, with its flexible resource allocation, can help craftspeople immediately increase production capacity. This aligns with an international study (Alsharari, 2019) that found the use of*rolling forecast*and relative performance evaluation as part of BB increases organizational adaptability in unexpected situations.

The principle of BB decentralization is also relevant. Research on public institutions in Jordan (Nizar Alsharari, 2019) shows that when authority is shifted to implementing units, decision-making is accelerated. In Plumpungrejo, a culture of mutual cooperation and teamwork has developed; decentralizing the budget to artisan groups actually strengthens local accountability. This also aligns with previous findings that emphasize the importance of collaboration and shared values for the sustainability of craft businesses. If these MSMEs implement performance evaluations based on market indicators (for example, comparing tourist numbers or sales volumes across artisan groups), this can encourage innovation and healthy competitiveness, without neglecting socio-cultural values.

Several previous studies support this potential. Apriandi (2023), in a study of national insurance companies, stated that inappropriate budgeting can lead to company losses; therefore, companies need to be prepared to implement the Beyond Budgeting concept as an alternative. He found that BB has "significant potential" in optimizing company management. Although the scale and context differ, the principles of market adaptation and efficient resource allocation apply universally. On the other hand, Wardayati et al. (2022) emphasized that the rapidly changing business environment is encouraging companies to abandon rigid top-down budgeting contracts. This aligns with the conditions of MSMEs in Plumpungrejo, which must be responsive to changes in tourist numbers and consumer trends.

In accordance with the problem-solving framework, BB's strategy is expected to achieve the goals of managerial flexibility and business sustainability.*anticipation system*(rolling forecast) and*relative targets*improve the accuracy of decision-making based on the latest data. Decentralization and*empowerment*Accelerate local reactions (e.g., product innovation, regional pricing) without waiting for distant approvals. Transparency of information and long-term value orientation are in line with the spirit of*sustainable tourism*, where cultural values are valued equally with financial gains. Thus, Beyond Budgeting is not only an economic solution, but also a social approach that promotes collective business sustainability.

However, BB adaptation at the MSME level is not without challenges. As revealed by Alhalawi & Dammak's research, BB adoption in MSMEs remains limited due to limited resources and understanding. Therefore, external learning and support are crucial. The qualitative approach in this study did not measure the quantitative impact of BB, but the results are consistent with the theoretical phenomenon: agile MSMEs*naturally*(able to produce quickly) will benefit if this agility is accommodated by an adaptive management framework.

CONCLUSIONS AND RECOMMENDATIONS

This study found that educational pottery tourism MSMEs in Plumpungrejo still rely on a minimal and informal traditional budgeting system. Cost calculations are performed manually and partially, and financial decision-making is centralized by the owner. In a dynamic market, this system is prone to inefficiency and makes it difficult to respond to changes in demand. Based on the conceptual review, the Beyond Budgeting approach offers relevant solutions: the use of rolling forecasts, relative targets, decentralization to artisan teams, and performance evaluation based on market benchmarks. These principles have the potential to increase operational flexibility and product innovation for MSMEs, supporting the long-term sustainability of economic and cultural businesses.

Practical recommendations include: (1)*Training and Mentoring*: For MSMEs, it is necessary to hold basic financial management workshops and simple rolling forecast training. This training can be facilitated by the tourism office or partner banks (BRI Desa BRILiaN) to build managerial accounting capacity. (2)*Adaptive Procedure Development*: MSMEs are advised to create quarterly work plan documents and performance indicators (e.g. visitor targets) to facilitate adjustments according to market realizations. (3)*Team Empowerment*: Craft groups are given autonomy in allocating small budgets (for example raw materials) and are given space to innovate products. (4)*Stakeholder Collaboration*: Village governments and supporting institutions can support this initiative with policies that encourage financial accountability of MSMEs, such as business recording services and access to revolving capital.

From a research perspective, further studies are recommended to quantitatively measure the impact of the implementation of Beyond Budgeting on the performance of tourism MSMEs. Nevertheless, these findings demonstrate that combining adaptive managerial accounting concepts (Beyond Budgeting) with the goal of empowering cultural tourism can enrich the literature on Indonesian MSME management. The application of Beyond Budgeting principles is expected to not only increase economic efficiency but also strengthen local cultural values and community involvement, thereby ensuring the sustainability of educational pottery tourism MSMEs.

FURTHER STUDY

Further research could focus on quantitatively measuring the impact of applying Beyond Budgeting principles on the performance of educational pottery craft tourism MSMEs, for example through comparative analysis of profits, cost efficiency, and customer satisfaction before and after implementation. In addition, comparative studies between MSMEs in other cultural tourism sectors are also important to assess the relevance and limitations of this concept in various local contexts. Longitudinal research with a longer time span can provide a clearer picture of the sustainability of Beyond Budgeting practices, particularly in the face of dynamic tourism demand and global challenges such as digitalization and changing market trends.

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