



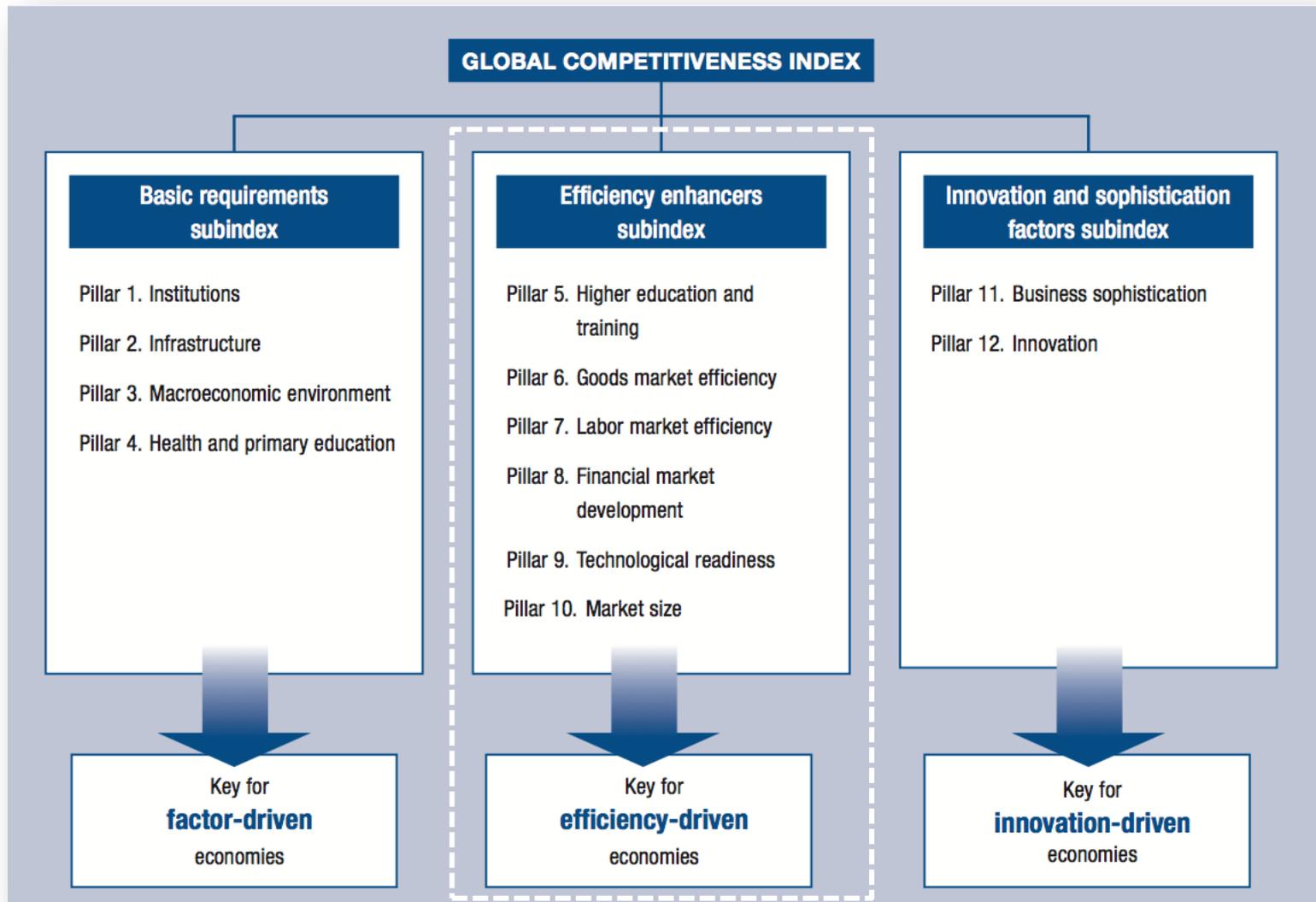
Increasing Cost Efficiency, A Move Towards Sustainable Competitiveness

Gatot Trihargo CFE

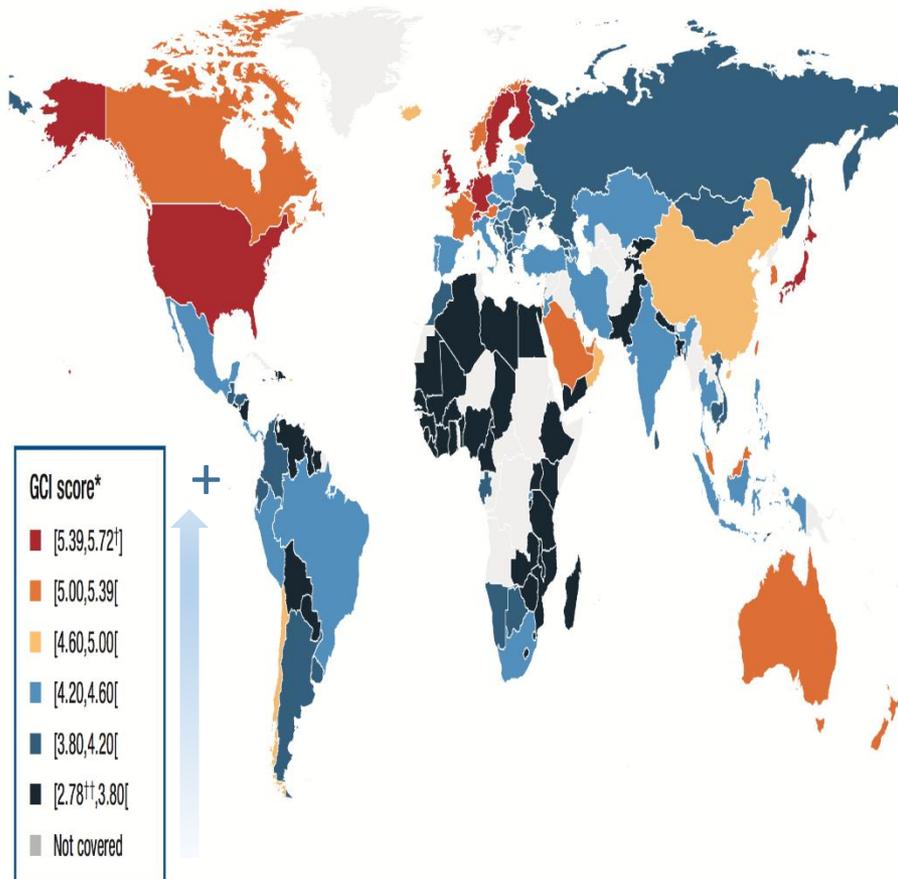
*Deputy Minister for State Enterprises in Service Sector;
President of ACFE, Indonesia Chapter*

Why Cost Efficiency Matters: Key to Competitiveness

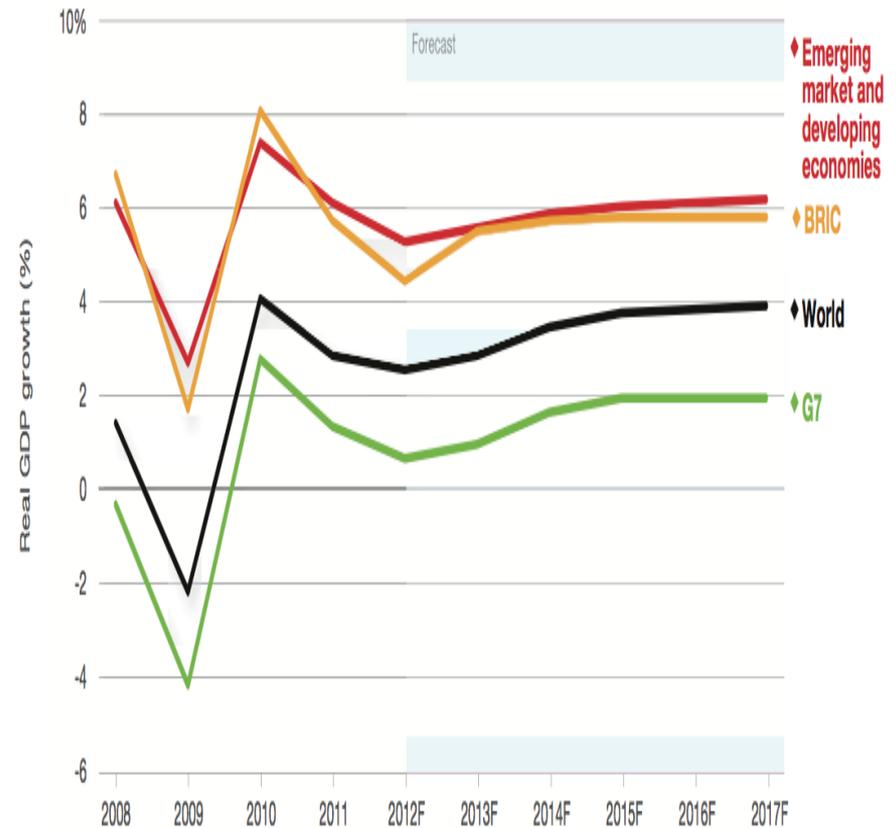
Enhancing efficiency is key to advance countries/enterprises to the highest stage of competitiveness



Global Competitiveness Map: Without Efficiency & Innovation, Factor Driven Growth Will Not Be Sustainable



Source: World Economic Forum Global Competitiveness Report 2012-2013

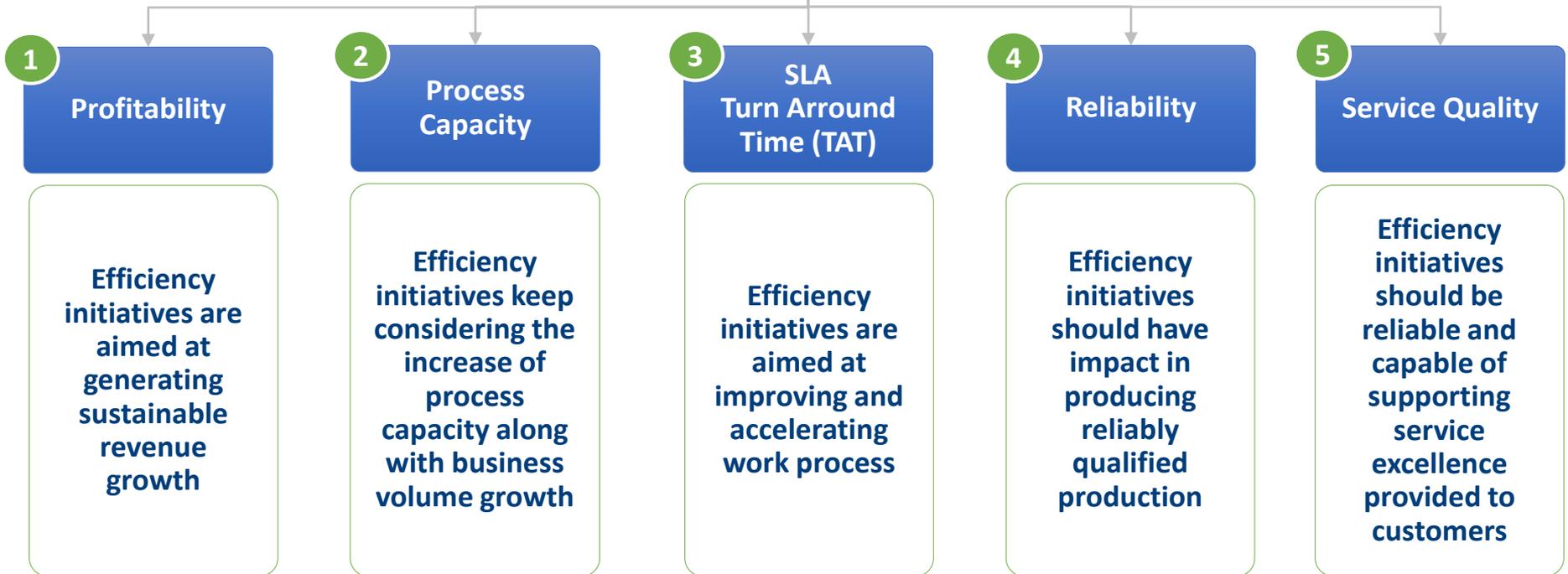


Source: International Monetary Fund World Economic Outlook October 2012; PwC Analysis Note: Developing countries as defined by IMF. GDP measured in constant prices, yoy change. Aggregate growth for BRIC is based on average real GDP growth weighted by nominal GDP.

Despite years of high growth in many emerging economies, including Indonesia, and its expected role in the coming decade, wide competitiveness between emerging economies and developed economies remains. Emerging economies' primary challenge now is sustaining growth by improving efficiency and fostering more innovation.

Cost Efficiency Framework: Experience of Indonesia's State-owned Enterprises

Efficiency Initiatives to support meaningful & sustainable business growth



Good Corporate Governance

Rules & Regulation

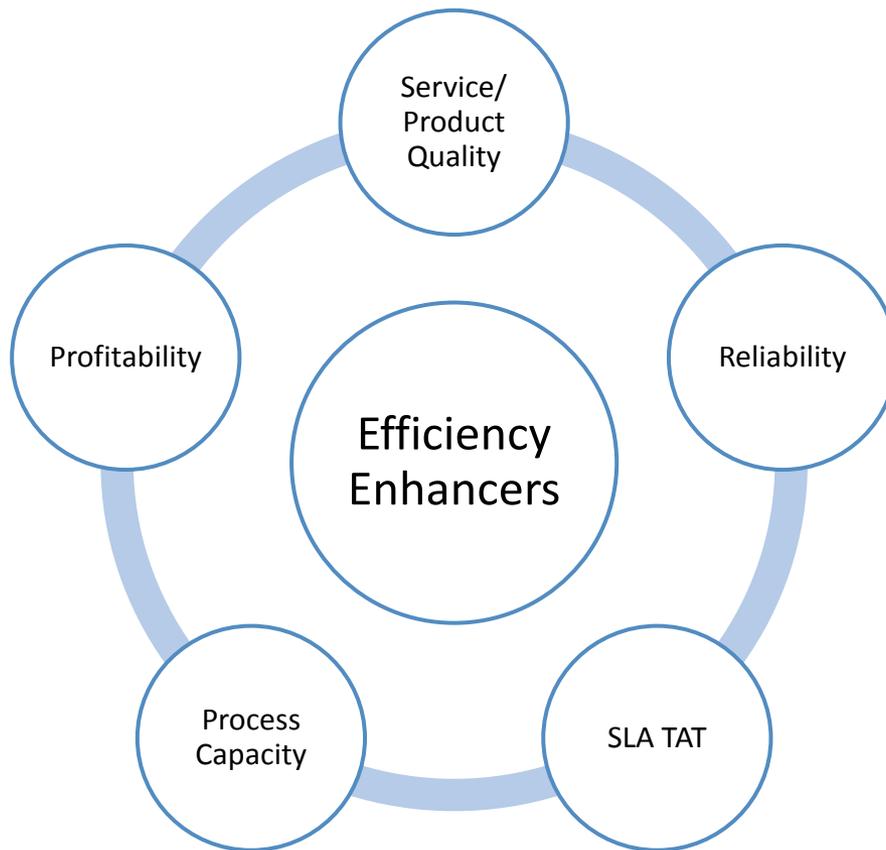
Appointment of 'Dream Team' exec

Alignment w/ wider devpmt Vision

Corporate Citizenship

Endogenous factors influencing efficiency

Internal Competencies Needed to Foster Cost Efficiency



- 1 *Competencies to build suitable HR Strategy & working environment which fosters visionary, innovative and inspiring approaches (including approaches to improve efficiency)*
- 2 *Competencies to communicate & cooperate well with key stakeholders, aiming at creation of conducive regulatory environment which will foster creation of additional welfare, not just value for corporation.*
- 3 *Competencies to see the broader picture of efficiency i.e. efficiency the macroeconomic sense.*

Efficiency involves myriads of key factors which requires combination of various skill sets and competencies, which includes among others: leadership competencies, technical competencies, financial strategy competencies, accounting competencies.

Looking At Cost Efficiency from a Broader Perspective: 2 Examples



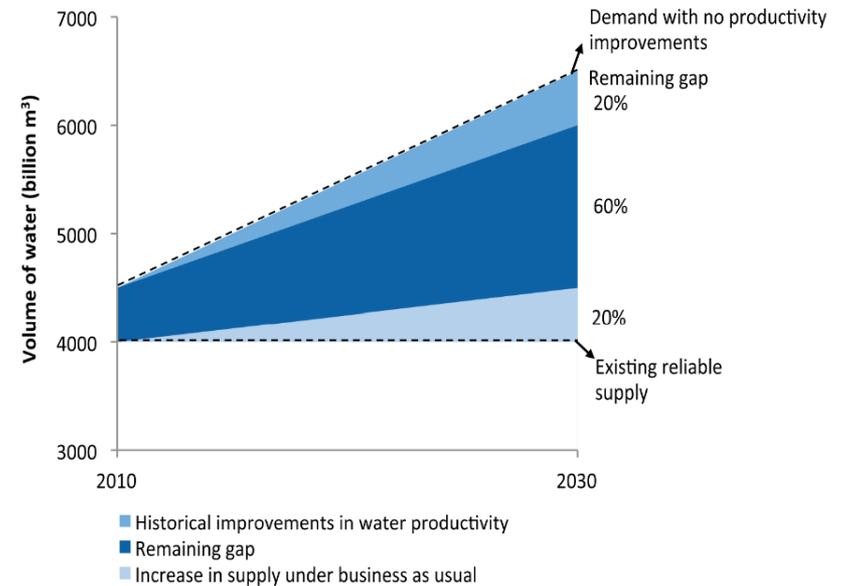
Source of graph: Christopher, Martin, M. Holweg, (2011). 'Supply Chain 2.0': managing supply chains in the era of turbulence, *International Journal of Physical Distribution & Logistics Management*. Vol. 41 Iss. 1, pp. 63-82.

Increased volatility is the new normal for globalized and interconnected supply chains. Supply chain risk management approaches configured for more stable times now need to be updated. **Turbulence is the new normal.**

Cost Efficiency/strategic Implication:

This volatility presents uncertainty and **rising costs** for companies and governments alike. The impact of these variations could, however, be limited through **decoupling growth from raw material intensity across the value chain.**

Source: *More with Less: Building Resilience in Supply Chain* (WEF, 2013); *Scaling Sustainable Consumption and Resource Efficiency* (WEF, 2012).



Source of graph: Water Resource Group

Analysis suggests that the world will face a 40% global shortfall between forecast demand and current estimates of available supply by 2030.

Cost Efficiency/strategic Implication:

Water is fundamental to survival and key to business operations. Pre-emptive, locally-relevant actions will be required across the value chain to secure the flow of water needed for long-term growth.

Looking At Cost Efficiency from a Broader Perspective: The Dilemma of Progress



IntercontinentalExchange, a collection of over-the-counter and options markets, will buy **NYSE Euronext** (operator of NYSE) for \$8.2 billion in a cash-and-stock deal.

Seen from the corporation, this merger is expected to **save \$450 million from cost synergies within two years.**

Seen from the broader picture, some predicted that this merger will foster more computer algorithm driven high speed derivative trading, exploiting microscopic price variations, while reducing stock trading.

As many cases has shown, including the 'Knight Capital incident in 2012, high speed derivative trading is still very prone to errors which **causes disaster detrimental to financial stability.**



Organizational Growth vis-à-vis Common good



Case Study

Fraud as Source of Cost Inefficiency

Organization Loses 5% of Its Annual Revenue to Fraud



The typical organization loses an estimated 5% of its annual revenues to occupational fraud.

- ▶ Survey participants estimated that the typical organization loses **5% of its annual revenue** to fraud. Applied to the estimated 2011 Gross World Product, this figure translates to a potential total fraud loss of more than \$3.5 trillion.

\$	846,832,282,925	Indonesia GDP 2011
\$	42,341,614,146	5%
\$??	5% of your Company's revenue

...at IDR 9,600/\$1, the loss to the nation is estimated **IDR 406,479,495,804,000 (US\$ 42,3 Bn)**

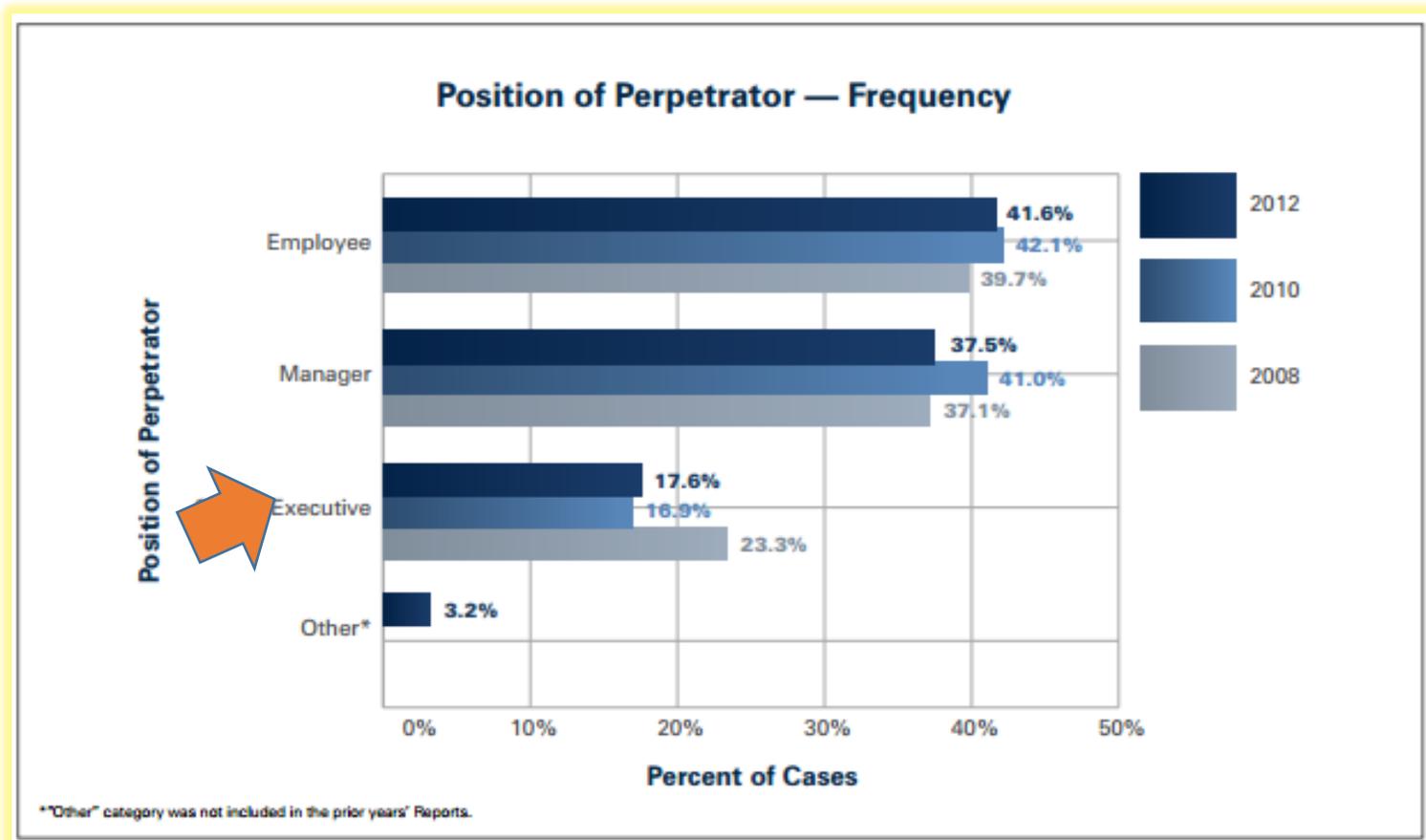
Any saving from the loss will directly increase the your company's *bottom line*!

Perpetrator's Profile

- ▶ **Position** : **Higher levels of authority** generally mean a perpetrator has greater access to an organization's assets and is better positioned to override anti-fraud controls.
- ▶ **Collusion** : Schemes involving **collusion** have also consistently resulted in much larger losses than those involving a single fraudster.
- ▶ **Gender** : Males tend to account for roughly two-thirds of all fraud cases.
- ▶ **Age** : 54% of all fraudsters were between the ages of 31 and 45.
- ▶ **Tenure of** : Individuals who have worked at an organization for **a longer period of time** will often enjoy more trust from their supervisors and co-workers, which can mean less scrutiny over their actions. Their experience can also give them a better understanding of the organization's internal controls, which enables them to more successfully carry out and conceal their fraud schemes.

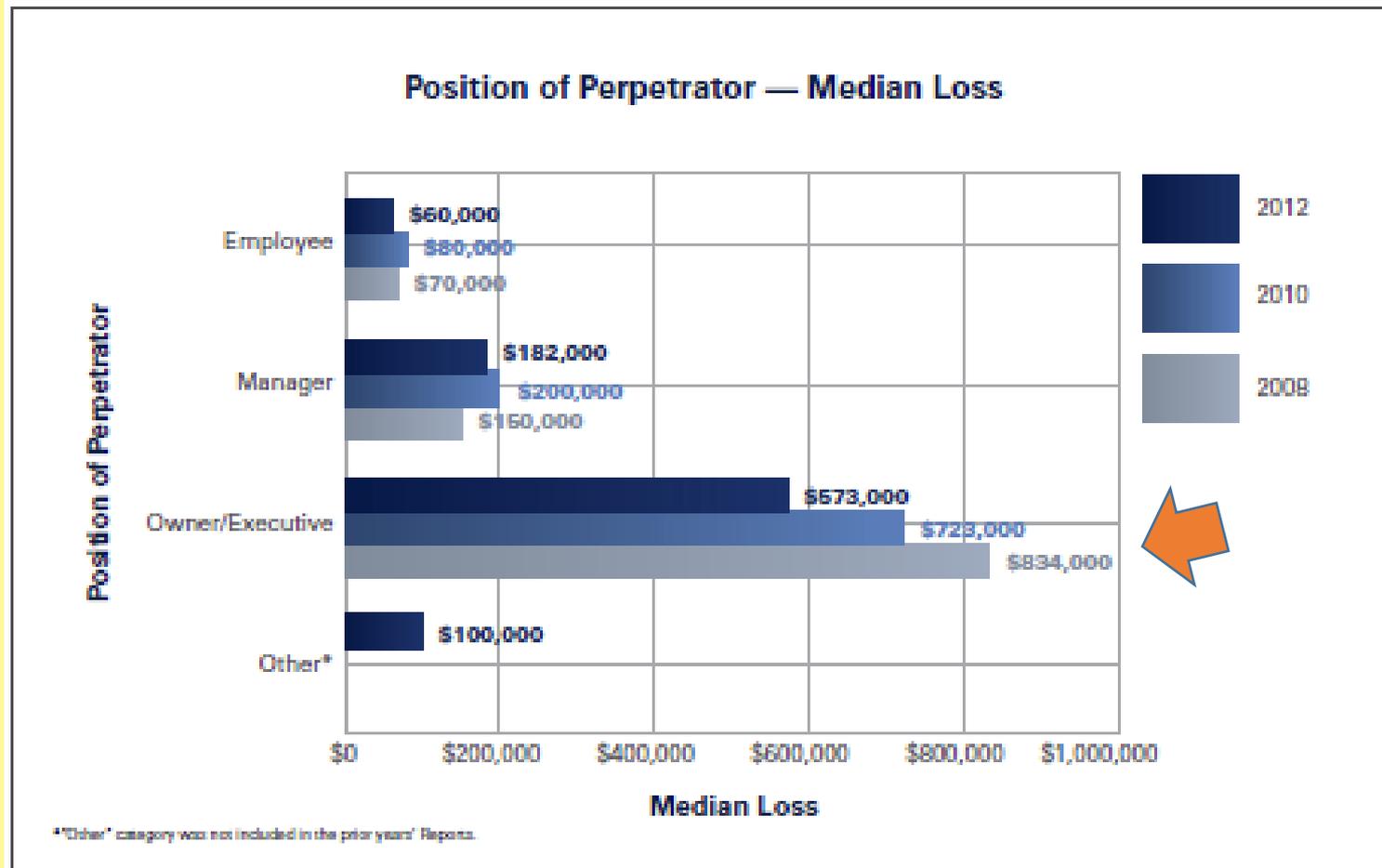
Perpetrator's Position

While in terms of frequency, there seem to be very few frauds come from the strategic level....



Perpetrator's Position

...but the impact is.....**huge**.....



Some Typical Fraud at the Strategic Level

- **Budgeting process** – highly complex assumptions with sophisticated underlying calculation to justify higher budget amount for certain areas of operations e.g. infrastructure development, new plant and equipment, environmental friendly equipment, hi-tech machineries and R&D.
- **Operating expenditures budget** – justifying significant marketing expenses amount due to the reason of ‘the touch of art work and design’.
- **Capital expenditures** – especially for highly technical items, justification for very limited vendor selection due to credentials. Such as IT related procurement, highly specialized industry (e.g. mining, oil & gas, life science).
- **Policy and/or regulation** designed to foster certain group or parties to have more advantages at the implementation/operational stage.



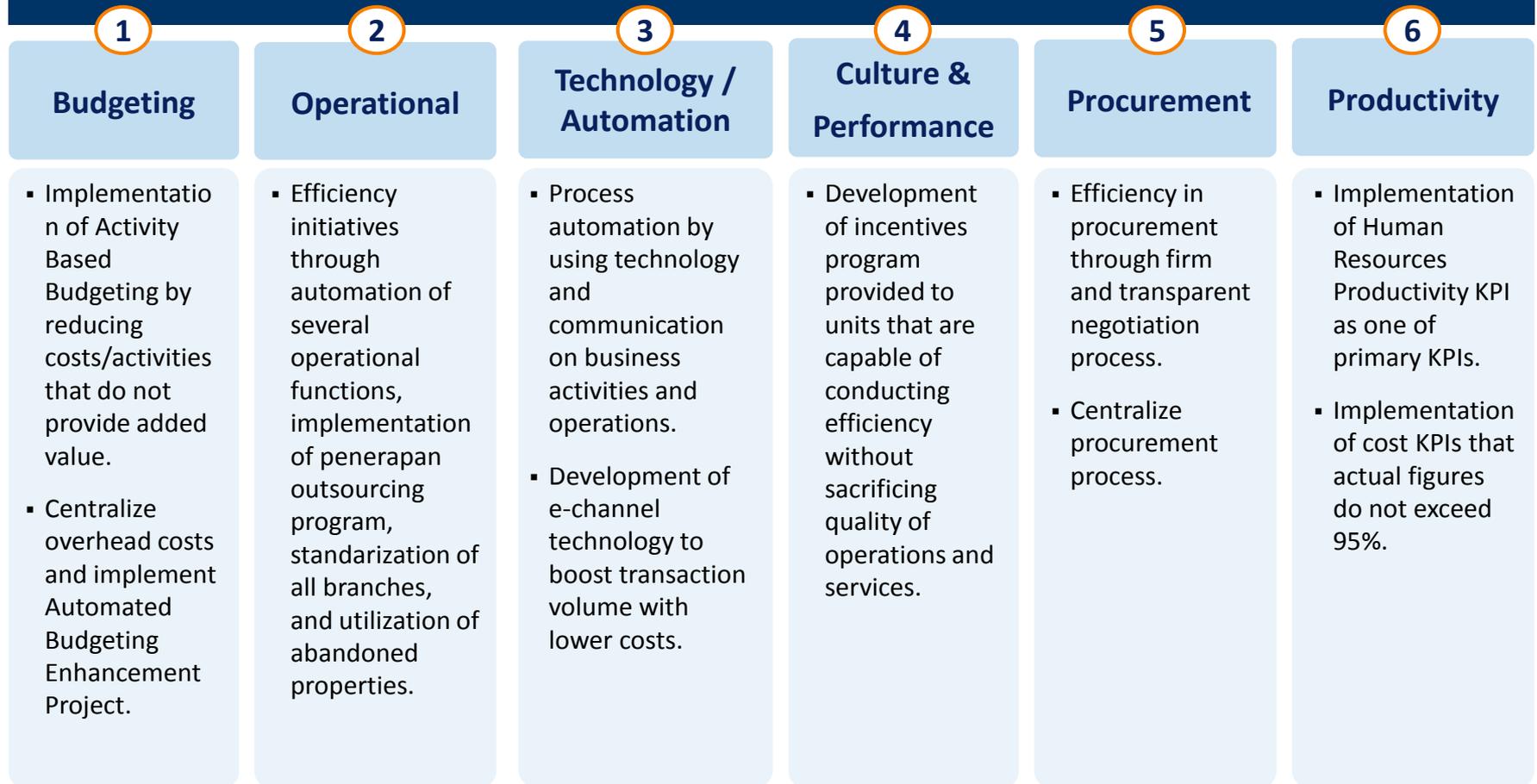
Case Study

Efficiency Strategy at BRI, BNI & Mandiri (state-owned banks)

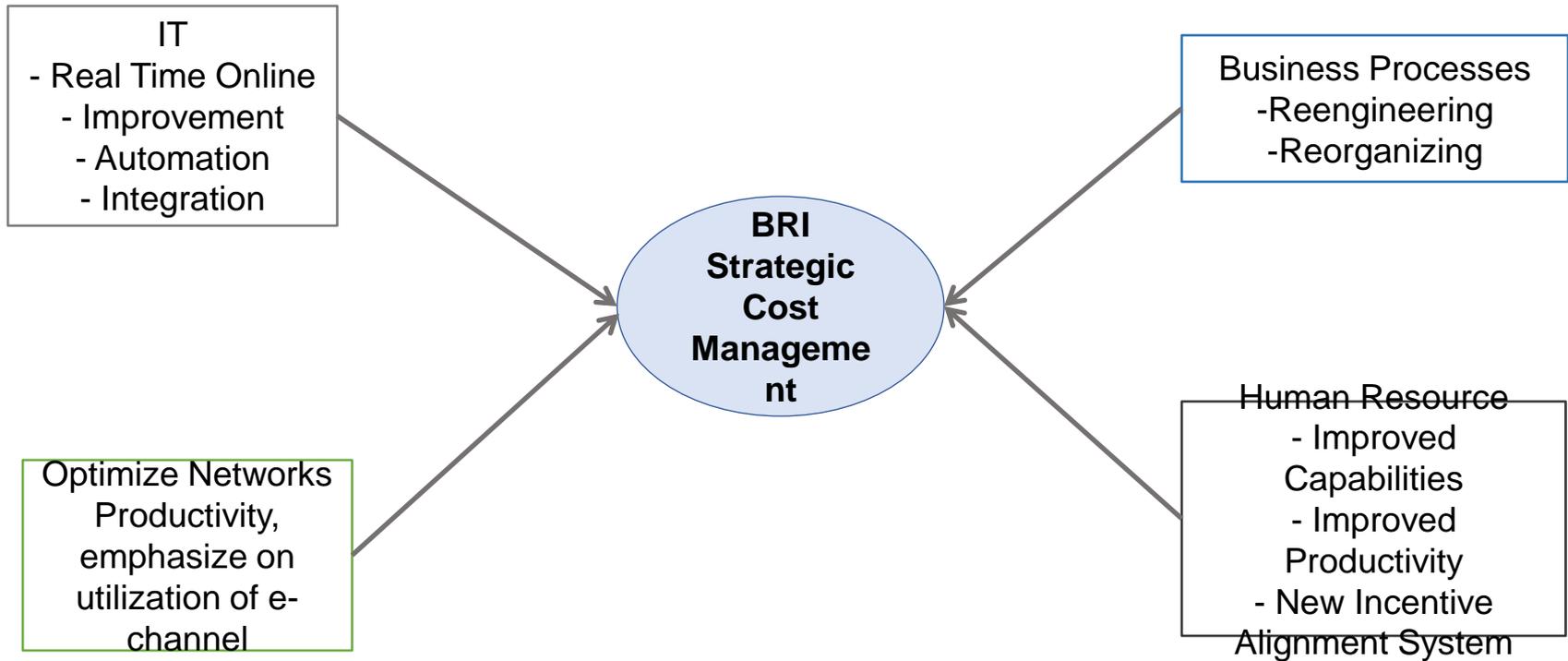


Efficiency Strategy Conducted by Bank Mandiri Covering 6 Areas

Bank Mandiri Efficiency Strategy



BRI Strategic Cost Management

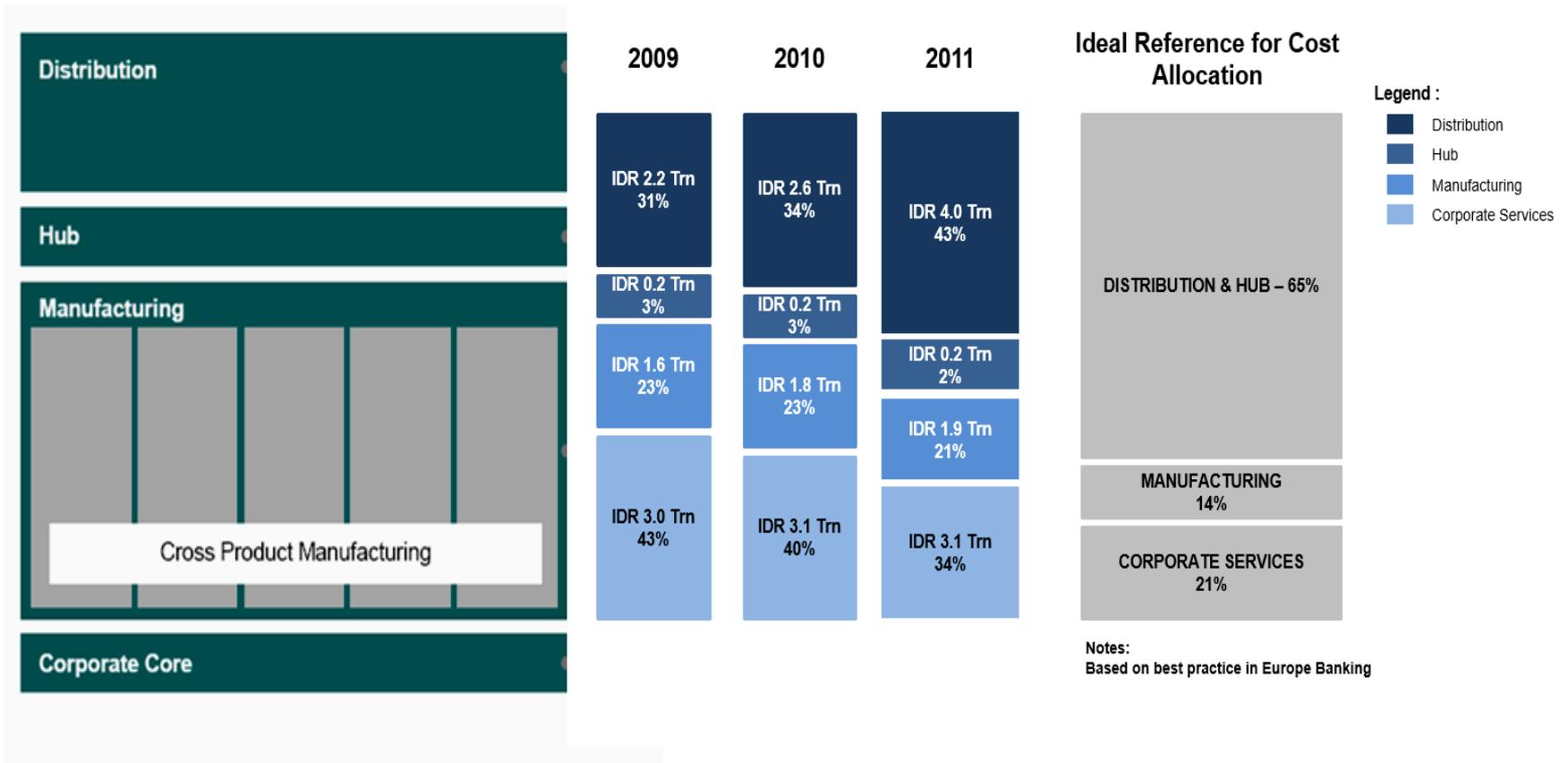


BNI Strategic Cost Initiative: Optimizing Opex Through Structural Changes

There are 3 structural changes opportunities :

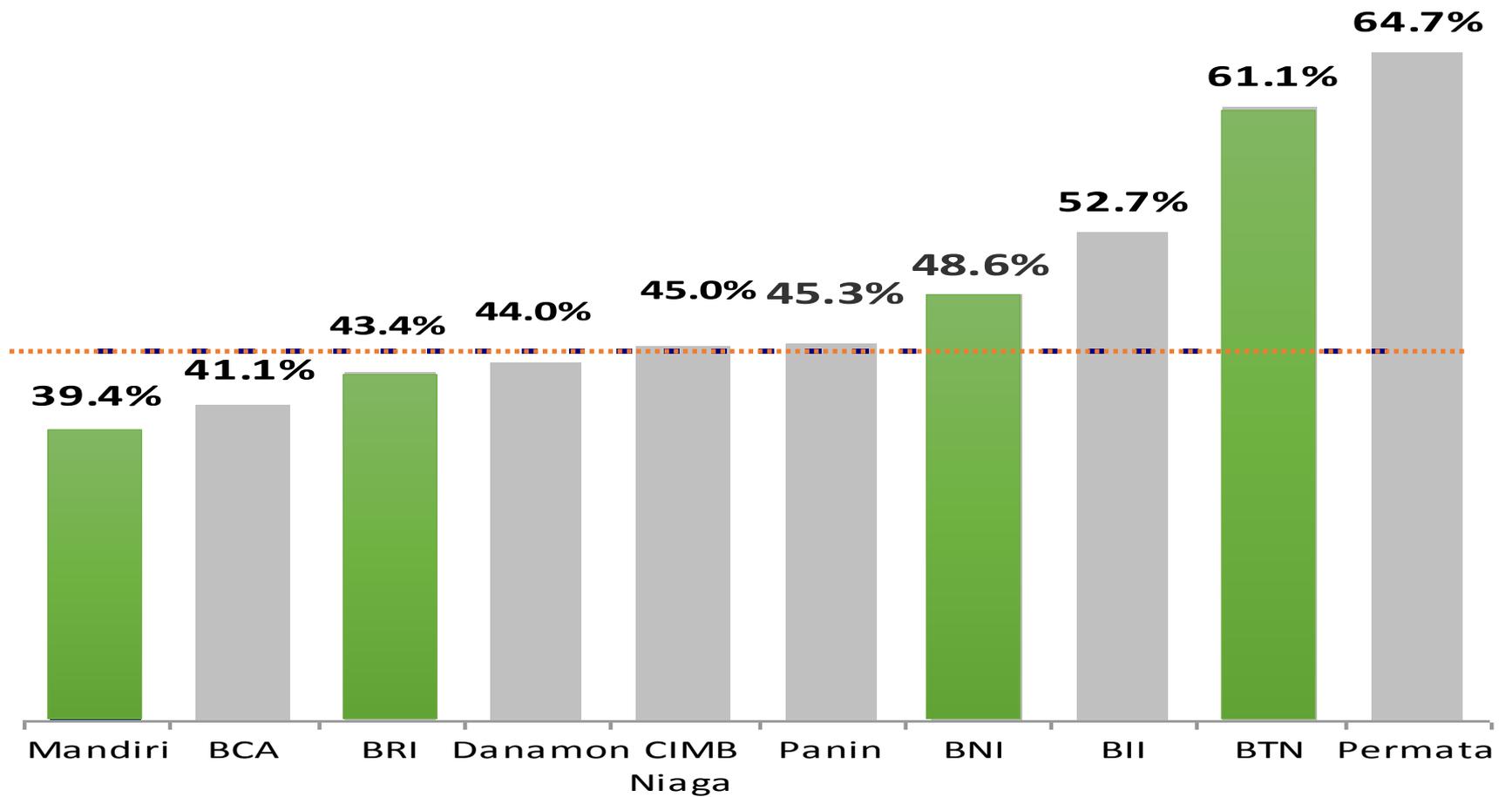
1. Distribution & Hub Optimization
2. Manufacturing Optimization
3. Centralized Corporate Services

BNI Cost Heat Map 2009-2011



CER of 10 Largest Bank in Indonesia

As of Sept 2012

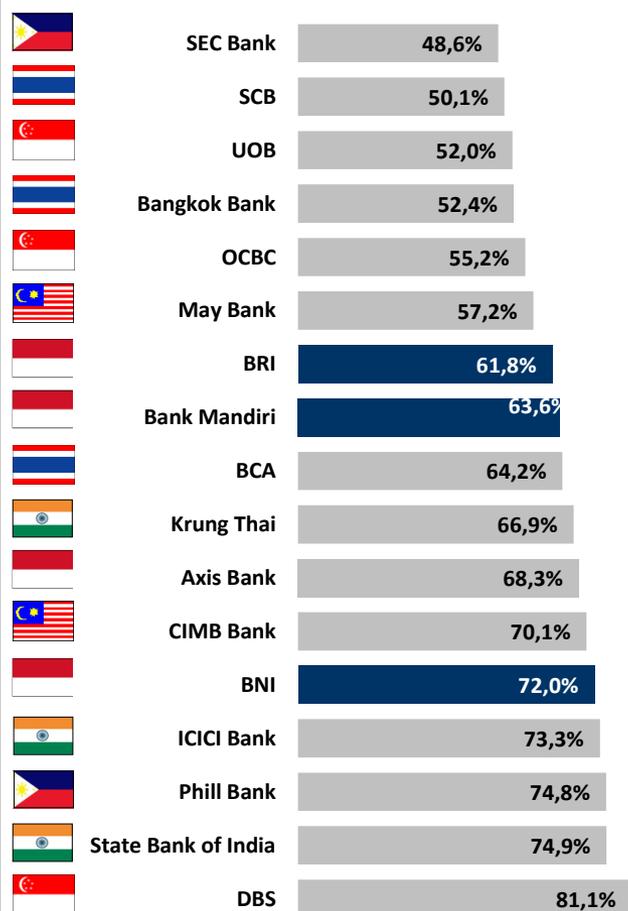


Source: Public Financial Report

..... Average CER of 10 largest banks

Profile: BRI, BNI & Mandiri's Cost Efficiency are Competitive

BOPO of National Banking is relatively still competitive compared to regional peers



Source: Public Financial Report

BOPO (Operating Expenses to Operating Income) Ratio of 10 Largest Bank in Indonesia, As of September 2012,

As of Sept 2012

Bank	Operating Income			Operating Expenses			BOPO
	Interest Income	Fee Based	TOTAL	Interest Expense	Operating Expense	TOTAL	
Mandiri	27.038	8.040	35.078	8.846	13.449	22.295	63,56%
BRI	35.432	5.268	40.700	9.453	15.682	25.135	61,76%
BCA	20.018	8.114	28.132	5.706	12.359	18.065	64,22%
BNI	16.038	4.969	21.006	5.255	9.865	15.121	71,98%
CIMB Niaga	11.751	2.548	14.298	4.575	5.686	10.261	71,76%
Panin	7.339	1.283	8.622	3.829	2.901	6.730	78,06%
Danamon	10.585	3.043	13.628	3.537	6.731	10.268	75,35%
Permata	7.271	942	8.213	3.036	3.777	6.812	82,95%
BII	6.042	1.426	7.467	2.715	3.779	6.494	86,96%
BTN	6.731	390	7.122	3.197	2.519	5.716	80,26%
10 Largest Bank	148.245	36.021	184.266	50.150	76.748	126.898	68,87%
SOE Banks	85.239	18.667	103.906	26.752	41.515	68.267	65,70%

Source: Public Financial Report



Summary

Cost efficiency should be seen as paramount for *survival*. Both the survival of organization, and the survival of the wider system in its broadest sense (society).

Cost efficiency requires active contribution from various skill sets, not just accounting (finance). Synergy is key.

In a world where turbulence is the new normal, cost efficient measures should aim at creating agile environment cost management, strong and flexible enough to quickly adapt to an ever changing environment.



Thank You



Supporting References

“2012 Report to the Nation on Occupational Fraud & Abuse”, Association of Certified Fraud Examiners (2012)

Hudson, Richard L.; Mandelbrot, Benoît B. (2004). **“The (Mis)Behavior of Markets: A Fractal View of Risk, Ruin, and Reward”**. New York: Basic Books.

“Building Resilience in Supply Chain”, World Economic Forum (2013)

“Bye-bye to the Big Board”, The New York Times Opinion, Dec 22 2012. Last accessed in Feb 25 2013, 04:33 at [link](#).

“Global Competitiveness Report 2012-2013”, World Economic Forum (2012)

“Global Risk Report 2013”, World Economic Forum (2013)

“More with Less: Scaling Sustainable Consumption and Resource Efficiency”, World Economic Forum (2012)

“Say goodbye to the Stock Exchange”, Aljazeera Opinion, Feb 20 2013. Last accessed on Feb 25 2013, 04:31pm at [link](#).