PUBLIC SECTOR'S MANAGERIAL AND FINANCIAL ACCOUNTABILITY (A Study of New Institutional Theory Perspective)

Yunita Islamiyah, Eko Ganis Sukoharsono, and Rosidi

Accounting Department, Faculty of Economics and Business, University of Brawijaya

Abstract

The aim of this study is to explore the financial and managerial accountability of public sector and its institutionalization. The process of institutionalization was comprehended through the perspective of New Institutional Theory (NIT). The Type of this research is qualitative approach using a case study in The Government of Jombang in Indonesia. The New Institutional Theory (NIT) in organizational studies is related to the fact that the structure of an organization is influenced by the social environment where it is located. Organization has a function to maintain its existence through the process of adaptation or institutionalization. Symptoms of isomorphism occurs where the formal organization similar to the environment through the mechanism of coercive, normative and mimetic. On financial accountability, coercive and normative mechanisms seem to be the most dominant. While on managerial accountability, the coercive mechanism is the most dominant. Decoupling behavior emerges as a response of the organization in addressing changes in financial and managerial accountability. The response shown in the process of institutionalization of financial accountability is acquiescence and compromise strategy. While, managerial accountability tends to use acquiescence and avoidance strategy. Financial accountability has been institutionalized in everyday practice of organization members. Meanwhile, managerial accountability, is a mere formality for compliance with regulations (ceremonial administrative). The results showed that the mechanism of Reward and Punishment (RNP) from the central government supports the process of institutionalization of accountability.

Keywords: Public Sector Accounting, Isomorphism (Coercive, Normative, Mimetic, Decoupling), Reward and Punishment Mechanism.

INTRODUCTION

The accountability in public sector in this era is not a new one in Indonesia. Almost, all government agencies and institutions emphasizing accountability are carrying out their administrative functions. Accountability has become an "icon" or "symbol" of good government for the public at large (Bovens, 2005). This phenomenon is the impact of the reformations taking place in 1998. The lack of accountability and transparency is supposed to be the main cause of the crisis and the economic downturn in some Southeast Asian countries including Indonesia (Velayutham and Perera, 2004; World Bank, 2000). To fix the economic crisis, some international organizations such as the World Bank, the IMF provides financial assistance and doctrine to improve the accountability of both the private sector and the public sector. Public sector slowly begins to recognize their governance principles as summarized in the paradigm of New Public Management (Hood, 1991; Rainey, 2009: 435). This paradigm assumes that the management of traditional government is inefficient, so it needs to adopt the techniques of private sector management (Hood, 1991; Parker and Gould, 1999).

New Public Management (NPM) is an approach to public management that emerges as a criticism for the classical bureaucracy. The emergence of these criticisms has triggered the

reforms of public sector management by adopting private sector management techniques into the public sector, including giving greater attention to the achievement of performance and accountability (Gruening, 2001; Hood, 1995). This transformation, in the end, brought about significant changes in public accountability, including financial and managerial accountability. Accountability is not only concerned with the way of managing public funds alone, but it is more to urge the government to use public funds effectively and efficiently (Guthrie, 1998; Karan, 2003 and Newberry, 2003).

Accountability in general sense is giving and demanding consideration to do something (Robert and Scapens, 1985). In public sector, accountability in the various writings is interpreted as transparency of information (Barberis, 1998; Aucoin and Heintzman, 2000; Kluvers, 2010). Further, Barberis (1998), Parker and Gould (1999), Sinclair (1995) and Steccolini (2004) revealed that accountability can also be interpreted as an explanation and an ability to answer the actions that have been carried out (explain and answerability). Dimensions of public accountability as mentioned by Hopwood and Tomkins (1984), quoted by Mahmudi (2013:9), include legal accountability and probity, financial, managerial, program, and policy accountability. Financial and managerial accountability is an important dimension in realizing the government's credibility as a party that should be held accountable on the mandate that has been given by the public. Bureaucratic reformation in Indonesia began with the issuance of Law No. 28 of 1999 on Clean and Corruption-free State Governance. After more than a decade of bureaucratic reformation in Indonesia, some facts indicate that the accountability of the public sector is still far from the expected. In terms of accountability in financial management, assessments of Local Government Financial Report in 2014 that have not yet gained unqualified opinion is still around 76% (Supreme Audit Board, 2014). In terms of performance accountability, according to the evaluation made by the Ministry of Administrative and State Apparatus and Bureaucratic Reformation, the Performance Accountability Report of Government Agencies of local governments is still slow in progress (12.78% in 2011).

The objectives achievement target set out in the Medium Term Development Plan of the State during 2010-2014, namely the establishment of good governance and corruption-free with unqualified opinion indicators of government financial statements of local government by 60% and the objectives achievement target with indicators of bureaucratic performance accountability of government agencies of 80% have not been reached. Unqualified Opinion of Local Government Financial Report on the first semester of 2004 is still around 34% (Supreme Audit Board, 2014).

Results of study by Randa (2013) about the accountability of the local government showed a expectation gap between what the public wants and what the apparatus have done on the performance of government agencies. This is due to the differences in the understanding of accountability. Solikin's study (2005) showed that most agencies tend to report higher (overstate) performance and blame external factors if there is a failure in their performance. Study of Nurkhamid (2008) and Akbar (2012) showed the low quality of local government agencies performance reporting. This condition is in accordance with the institutional theory that suggests that the main reason underlying this organizational change is more focused on achieving legitimacy rather than an increase in performance (Ashworth, 2009).

Some researchers that have already used institutional theory in public sector are Djamhuri (2009), Amirya (2011) and Rahayu (2015). Djamhuri (2009) uses the perspective of institutional theory to understand the process of budgeting and accounting reforms in local government. Amirya (2011) uses this perspective to analyze the development of the budget and accounting system on the Public Service Agency at Brawijaya University, Indonesia. Rahayu (2015) uses

institutional theory approach to examine the budgeting process of School Operational Assistance. For research on accountability, Kotsias (2010), Goddard and Assad (2015) use the institutional theory in understanding the practice of accountability of the public sector in Greece and in Tanzania. Inung and Akbar (2015) conducted a quantitative study using institutional theory and structural theory in understanding the practice of accountability and performance measurement system of local work units in Yogyakarta.

These studies showed that the New Institutional Theory (NIT) is effective to comprehend the changes that occur in an organization. Institutionalization is a process of adaptation of an organization with its environment. An organization that is considered as an adaptive system will be affected by the social conditions in communities such as legitimacy, effectiveness, and rationality as well as various pressures caused by the surrounding environment. The New Institutional Theory (NIT) in organizational studies is related to the fact that the structure of an organization is influenced by the social environment where it is located (Carruthers, 1995). Usually an organization is formed into a formal structure that consists of a variety of rational procedures, processes, and rules (Meyer and Rowan, 1977).

In the context of this study, accountability is one of the realities faced by local governments. Reform of bureaucracy under NPM paradigm has consequences of various dynamics and changes in the process of public accountability, especially in the financial and managerial accountability. In terms of the institutional theory, change and pressure on the environment in the form of rules and social expectations will require organizations including local authorities for adaptation and interaction with the environment. The organization will strive to make adjustments until a formal organizational homogeneity is established.

The success of the process of institutionalization will determine how the financial and managerial accountability is done and practiced by organizations in their daily activities. So far the author have arrested gaps in the institutionalization process of financial and managerial accountability in local government including local government of Jombang. The gap can be seen from the commitment of top management (head area) in providing support in the form of goal setting (vision and mission), the allocation of resources both human and financial resources (budget) in realizing the financial and managerial accountability.

Based on this background, the author is interested in understanding the process of institutionalization of financial and managerial accountability in the government of Jombang, Indonesia. Whereas, the results of the Local Government Financial Report of Jombang in 2013 and 2014 indicate the acquisition of an unqualified opinion of the Supreme Audit Board, on the contrary, the evaluation results of the Performance Accountability Report of Government Agencies by the Ministry of Administrative Reform and Bureaucratic Reform still get grade "C" and "CC" just recently. Medium Term Development Plan of Jombang in the period of 2014-2018 does not explicitly mention the target of achieving grade the Performance Accountability Report of Government Agencies from "CC" to "B" as one of the missions of regional development but to the target achievement of the Supreme Audit Boards's opinion from qualified into unqualified has become one of the missions of regional development. The challenges faced by local government of Jombang in realizing the demands on financial and managerial accountability today is increasingly complex with the adoption of Government's Regulation No. 71 Year 2010 regarding the government accounting Standards of Accrual-Based and Presidential Decree No. 29 of 2014 concerning Accountability System of Government Agencies Performance. Whereas, in 2015, the financial reporting with accrual accounting will be fully done by the government of Jombang.

RESEARCH METHODS

This study uses qualitative research through case study approach in the government of Jombang, Indonesia. Case study according Sukoharsono (2006) is a study to explore a (or some) structure of a system or case in detail. A case study is used because the author want to gain a comprehensive understanding the process of institutionalization of financial and managerial accountability in the government of Jombang. The New Institutional Theory Perspective (NIT) is used to describe the organization's response to changes in the surrounding environment. The author looked at the financial and managerial accountability as a process that requires various stages until the financial and managerial accountability can actually be institutionalized well in an organization.

Informants in this study is the apparatus of government in the local work units which has the main task and function in realizing the financial and managerial accountability (performance) in the government of Jombang. The local work units are: 1). Department of Local Revenue, Finance, and Asset , which is a Regional Financial Management Task Force, which became the center of activity of management and financial reporting the government of Jombang. Department of Local Revenue, Finance, and Asset also responsible for the provision of information and the preparation of Local Government Financial Report of Jombang 2). Planning Board is one of the leading sector in the preparation of performance planning and Performance Accountability Report of Government Agencies of Jombang and 3). Organization Department is local work unit that responsible for compiling and reporting Performance Accountability Report of Government Agencies.

This study uses primary data and secondary data. The primary data are obtained through interviews with informants, while secondary data are obtained indirectly from informants or objects. The secondary data in this study are obtained from available data or document legislation such as Law No. 23 Year 2014 on Regional Government, Law No. 15 of 2006 on Management and Responsibility of State Finance, Presidential Decree No. 29 of 2014 on Performance Accountability system for government Agencies, Government Regulation No. 24 of 2005 concerning Government Accounting Standards, District Regulation declaring about financial management systems and accounting procedures, Local Government Financial Report and the Performance Accountability Report of Government Agencies, Medium Term Development Plan of Jombang year 2014 -2018, the Examination Report of Supreme Audit Board year 2010-2014 and literature associated with the study. Data collection techniques used in this study are interviews and documentation. To meet the elements of credibility in this qualitative research, the technique is based on Moleong (2014) including triangulation, referential adequacy, and discuss with others (peer debriefing). Analysis of the data is qualitative data analysis interactive model of Miles and Huberman (2007). Stages used in the analysis are data reduction, data display, and conclusion drawing / verification.

INSTITUTIONALIZATION FINANCIAL ACCOUNTABILITY

The process of institutionalization of financial accountability in the government of Jombang is inseparable from the current reforms taking place in Indonesia during 1999 up to now. Reform of the bureaucracy in local government began with the publication of the law on Local Government and Financial Balance between Central and Local Government. In addition to these regulations, the government also issued a number of implementing regulations. Among the implementing regulations, which resulted in fundamental changes in the financial management area are: 1). Regulation No. 105 of 2000 on Regional Financial Management and Accountability 2). Decree of Ministry of Home Affair No. 29 of 2002. The principal changes are their demands

for accountability and transparency in financial and budget management (Halim and Kusufi, 2013: 5).

Some changes and shifts in financial and budget management according to (Halim and Kusufi, 2013: 5) are the changes of vertical accountability to horizontal accountability. Before financial reform, accountability for budget management areas are aimed more at the higher levels of government. With the reform, accountability is addressed to the people through parliament. Subsequent changes are relating to governments' financial accounting systems. Reform of the financial accounting system as mentioned in Halim and Kusufi (2013: 6) is the "heart" of the local financial reform because with this system will be capable of producing output as expected in Regulation No. 105 of 2000. The financial accounting system of government which was originally used single entry is converted into double entry.

In line with the publication of laws on financial management of the area, there are also regulations such as Regulation No. 24 of 2005 regulating the Government Accounting Standards with validity period of 5 (five) years after the date of issuance. Then, it was revised by issuing accrual-based defined by Regulation No. 71 Year 2010, which still implemented cash basis for the preparation of the implementation of the budget, as well as the entities that are still not ready to implement full accrual basis until the end of 2014.

The New Institutional Theory (NIT) looked every rule, technology, policy and system as an institution (Rahayu, 2015). Institutionalization process itself can be defined as the process of instituting new policies and regulations in an organization. The process of institutionalization of financial accountability in the government of Jombang includes the steps of innovation, diffusion, legitimacy and deinstitutionalization stage. Innovation is the stage of the emergence of new institutions in a particular field of organization. Institutions in this case is a rule, technology, policy, and the new system that will affect the practice that should be run by the organization. In the context of this study, innovation appears with the publication of Government Regulations No. 24 of 2005 regulating the Government Accounting Standards. Government Regulations No. 24 of 2005 was the first of Government Accounting Standards published by the Committee on Governmental Accounting Standards. Regulation No. 24 of 2005 was in force only five years because in 2010, Committee on Governmental Accounting Standards revised it and publish The Accrual Government Accounting Standards through Regulation No. 71 of 2010.

Innovation stage in the government of Jombang is responded by issuing local regulations, they are Jombang District Regulation No. 15 Year 2006 on the Principles of Financial Management and Jombang Regent Regulation No. 19 Year 2007 on Systems and Procedures of Local Accounting and Financial Reporting. In addition, local governments also make adjustments to the institutional structure with the establishment of new institutions, namely Local Financial Management Agency, which in 2009 turned into the Department of Revenue, Management Finance and Local Asset.

Diffusion stage is the deployment phase of innovation in the organization's members. Some experts claim that communication and interaction is very important in the institutional process. This process can be through dissemination (Jennings and Greenwood, 2003:196). Dissemination can be done through socialization, training and technical guidance. Predominant method done at this diffusion stage is through socialization, training and technical guidance. Almost every year, the government of Jombang routinely carry out technical guidance on financial reporting area. The information submitted by the Head of Accounting as follows:

"We regularly held training for technical assistance related to socialization of new legislation to increase the capacity of financial reporting sector departments, to increase the capacity of the accounting field itself, each year we send staff to attend of Technical Training related to new information management system and new regulations".

Selznick (1949), as quoted by Rahayu (2015), revealed that institutionalization is a process that will happen to the organization at all times, reflecting how to adapt to its environment. In other words, organizations that are adapting the values of environmental/social institutions are organization that are being institutionalized. The processes of institutionalization are usually followed by legitimation process.

Legitimation function is to create an institutionalized understanding become available objectively and plausibly subjective (Rahayu, 2015). Institutionalization process will generate legitimacy, which is important and necessary for the sustainability of an organization (Suchman, 1995). In this study, the stages of legitimacy occur through the adoption of legislation and other laws the basis for realizing financial accountability in the Government of Jombang. The response of the Government of Jombang with the issuance of Government Regulation No. 24 of 2005 is issuing policies and regulations in the form of Local Regulation. That is expressed by the informant (Head of Accounting) as follows:

"With several laws and regulations issued by the central government, the local government immediately follows up by issuing a policy such as local laws and regulations as technical guidelines concerning financial management as well as accounting and reporting procedure.

Based on documents observation, since 2006, there are at least 8 (eight) legal products produced by the government of Jombang in respond to the rules and regulations of the central related to financial reporting. The regulations are:

- a. Jombang District Regulation No. 15 Year 2006 on the Principles of Financial Management;
- b. Jombang Regent Regulation No. 19 Year 2007 on Systems and Procedures of Regional Financial Accounting and Reporting;
- c. Jombang Regent Regulation No. 15 A Year 2008 on the Amendment of the decree No. 19 of 2007 on Systems and Procedures of Regional Financial Accounting and Reporting;
- d. Jombang District Regulation No. 41 Year 2012 on the Second Amendment of the decree No. 19 of 2007 on Systems and Procedures of Regional Financial Accounting and Reporting;
- e. Jombang Regent Regulation No. 20A of the Year 2013 On The Third Amendment of the decree No. 19 of 2007 on Systems and Procedures of Regional Financial Accounting and Reporting;
- f. Jombang Regent Regulation No. 22 Year 2014 About the Second Amendment to the decree No. 20A of 2013 concerning Jombang Government Accounting Policy.
- g. Jombang Regent Regulation No. 22 Year 2015 About the Third Amendment to the decree No. 20A in 2013 on Systems and Procedures of Regional Financial Accounting and Reporting;
- h. Jombang Regent Regulation No. 30 Year 2015 About the Second Amendment to the decree No. 22 of 2014 concerning Jombang Government Accounting Policy.

Regulations and policies that have been issued by the government of Jombang indicative to the implementation of financial management. Including the systems and procedures for accounting and reporting. All these regulations are carried out in an orderly manner and practiced in everyday life by the local work units in the government of Jombang.

The last stage is deinstitutionalization. This phase can be seen from the significant changes related to financial accountability policy. In the context of this study, the changes related to the implementation of accrual accounting per January 1, 2015, is the stage of deinstitutionalization, where there are new rules and regulations affecting the pre-existing

conditions. The application of accrual accounting as of January 1, 2015 becomes a challenge for local government in financial accountability. The decline from unqualified opinion to qualified opinion also becomes one of the concerns of local government. Preparation of both Human Resources, Information Systems, and Information Technology, as well as in the form of regulation and district regulation already established will be the synergies and anticipation in maintaining unqualified audit opinion's from Supreme Audit Board for the fiscal year of 2015.

Viewed from the process of institutionalization of financial accountability in the government of Jombang, activities that are run daily shows that financial accountability has already been regularly practiced. The activities include drafting financial statements, timeliness in the submission of financial statements and coordination of regional work units. Activities undertaken by the organization's members are already based on the regulations and technical guidelines such as district regulation as well as other laws. In realizing financial accountability, the local government of Jombang has been successful. One of the success is identifiable through the acquisition of unqualified opinion for Local Government Financial Report during 2013 and 2014. In addition, in early 2016, the government of Jombang also received a reward from the Ministry of Finance in the form of highest Regional Incentive Funds for its accomplishments in financial management.

Jepperson (1991: 145), quoted by Rahayu (2015), mentions that capacity of any institution to be institutionalized in an organization depends on self mechanism that can be applied to reward and punishment. Likewise with the process of institutionalization of financial accountability in the government of Jombang. Regulations and policies related to financial accountability are able to be well institutionalized in organization due to the mechanism of reward and punishment imposed by the central government, namely the Ministry of Finance through the Regional Incentive Funds, delayed General Allocation Funds and delayed Special Allocation Funds.

Organizations are trying to maintain their existence through the process of adaptation or institutionalization (Rahayu, 2015). Symptoms where the formal organization became similar to the environment is referred to isomorphism (Meyer and Rowan, 1977). Institutional theory can be used to comprehend how public accountability, especially financial accountability, becomes the main focus of bureaucratic reform under NPM paradigm. High demands for accountability show symptoms of institutionalization and isomorphism in the environment of local government organizations including the government of Jombang. In the application of financial accountability that has been done, isomorphism appears in three forms, namely coercive, normative and mimetic.

Coercive isomorphism can be seen from the pressure that comes from the law, government regulations, ministerial regulations, and the policy of regional leader. Normative isomorphism appears in the form of the use of professional personnel, the establishment of an informal consultant at the time of dissemination and socialization. Mimetic isomorphism can be seen from the organization's efforts to emulate other organizations that has been already successful.

Coercive isomorphism in this study can be seen from the pressure and coercion to comply with rules and regulations, they are: Issuance of state financial management package, i.e Law No.17 of 2003 on State Finance, Law 1 of 2004 on State Treasury, and Law No.15 of 2004 on Management and Financial Responsibility State. This was followed by Government Regulation No. 24 of 2005 regulating the Government Accounting Standards, Government Regulation No. 8 of 2006 on Financial Reporting and Performance of Government Agencies and Government Regulation No. 71 of 2010 that becomes a distinct pressure for the government of Jombang to execute. This can be demonstrated by the response of local government in following up on any

new policies on financial management and reporting to the local regulations as implementation technical guidelines.

The next mechanism that can be captured by the researchers is mimetic isomorphism. This is motivated by the unpreparedness of the organization against a standard in a form of regulation that has led the organization to the lack of understanding in the transforming into the new regulations. In uncertain situations, leaders of the organization will decide that the best response is mimicking other the organizations they deem successful (Mizruchi and Fein, 1999). This mimicking behavior is also found in the process of institutionalization of financial accountability. Mimetic isomorphism in financial accountability occurs through improved financial management and reporting by way of a comparative study (benchmarking) to some local governments who are already successful and have good financial accountability.

The research found that there are at least two places that have been made as the benchmark for the government of Jombang, they are the government of Manado in 2012 and the government of Semarang in 2013. Semarang was chosen as one of the objectives of comparative study because they have obtained unqualified opinion and have already implementing accrual accounting consistently. Manado had already obtained unqualified opinion for Local Government Financial Report, has asset management, especially in cooperation fixed assets utilization and The Demands of Treasury and Demands Indemnity. The city has many breakthroughs innovation related the Demands of Treasury and Demands Indemnity. Such exposure may indicate symptoms of mimetic isomorphism in the institutionalization process of financial accountability in the government of Jombang.

The next isomorphism mechanism is a normative isomorphism, which is demonstrated through cooperation with government agencies such as the Financial and Development Supervisory Agency. In accordance with Article 2 and 3 of the Presidential Regulation Republic of Indonesia No. 12 of Year 2014, the Financial and Development Supervisory Agency has the task of conducting governmental affairs in the field of financial supervision of state/regional and national development. During the period of 10 (ten) years, there are around seven (7) amendments to the Meeting of Understanding between the government of Jombang with the Financial and Development Supervisory Agency. The cooperation covers: a). Monitoring on the implementation of Local Management Information System b). Adjustment of Local Management Information System related to changes in legislation from the state c). Update on Local Management Information System database and application d). Technical assistance on budget administration and preparation of financial statements f). Mentoring in local government financial statements preparation. The Financial and Development Supervisory Agency existence considerable in the effort of helping the government of Jombang in realizing financial accountability. This was stated by the Head of Accounting as follows:

" The Financial and Development Supervisory Agency has a significant role in supporting the achievement of financial accountability in the government of Jombang. So far The Financial and Development Supervisory Agency is very helpful in many ways. Several other local governments asked the success key for Jombang in cooperation with The Financial and Development Supervisory Agency related to the preparation of financial statements and other assistance . The key, we must ask actively".

Among all institutionalization processes that has already been described, the one that is most predominantly found in the government of Jombang is coercive isomorphism. This is motivated by pressures and regulations imposed by the central government. As revealed by the

informant (Head of the Budget) as follows that any existing legislation is implemented without any bargain and exceptions.

"Regulation and financial policies from the central government is directly proportional to its implementation, which means meaning that any policy related to financial management and financial reporting will continue to be followed up immediately by the local government, especially those associated with reward and punishment policies imposed by the Ministry of Finance".

Decoupling may occurs in the process of institutionalization of an organization. In addition to the symptoms of isomorphism, Indication of decoupling is also found in this study. The symptoms appears, one of them, due to limited human resources. One form of decoupling behavior that can be observed is in the preparation of financial statements, especially at the time of preparing the balance sheet of fixed assets related to the capitalization policy. For this asset capitalization criteria the government of Jombang has issued a policy in the form of Reagent Regulation of Jombang No. 15A/2008 on January 1, 2008 which was amended by decree No. 41/2012, Systems and Procedures Accounting and Financial Reporting Regions, on December 26, 2012. It is stated that moderate to severe rehabilitation capitalized if they meet one of the criteria volume, capacity, functionality, efficiency and benefits addition. In practice, The Supreme Audit Board of the Republic of Indonesia still found many findings in its annually audit. If the value is material, it will become an obstacle in the acquisition of a favorable audit opinion.

The preparation of financial statements as accountability media in the Government of Jombang at the beginning of its application was only intended to meet the needs legitimacy, and many decoupling symptoms. However, along with improvements and organizational adjustments including procedural, technological and cultural improvement in the organizational, process, symptoms of decoupling have gradually decreased. Reform does not only require technical adjustments but also behavioral and organizational adjustments (Djamhuri, 2009: 41). Reform always brings a new understanding among those involved. Organizations that face pressure/necessity to make changes will implement a strategy in response to a change (Rahayu, 2015). As mentioned by Oliver (1991), there are five forms of organization's response in the face of change. They are acquiescence, compromise, avoidance, defiance, and manipulation.

The five strategies show the most passive to the most active responses (Oliver, 1991). Acquiescence is the most passive attitude. Organizations receive a new institution dutifully and make it as a habit. The demands of the institution become taken for granted for the organization (Oliver, 1991). Organizations choose to adjust to social pressure because it may increase the legitimacy and create trust that the organization has a good faith (Oliver, 1991). Compromise is executed by maintaining balance and cooperation with other parties. The balance is achieved by the spread of innovations that have made the organization. Avoidance is done by hiding nonconformities. Defiance is done in the form of dispersing, defying, and attacking. Manipulation is the most active strategy, because the organization tries to persuade and control external parties to change the perspective of the institutionalization process (Oliver, 1991).

Of the five responses, the evident responses are acquiescence and compromise. Acquiescence strategy is the most passive attitude. Organization and its members accept a new institution (in this case the rules and regulations) dutifully and make it as a habit. While the strategy, i.e. compromise, is executed by maintaining balance and cooperation with other parties. The balance is achieved by the spread of innovations that have made the organization. Organizations follow the external demands according to their capacities, as expressed by the informants (Head of Accounting) below:

"The response shown so far is positive, although sometimes there is a comment of complaints, in the end they all remain cooperative in the preparation and reporting. Especially for changes in accrual based accounting change per January 1, 2015, many people commented on the use of accrual base since it, create dizziness. This is quite understandable because implementation of new regulations requires stages and time ".

Response organizations can be found on the activities undertaken in realizing financial accountability as reflected in the financial statements of the government of Jombang. Each local work unit orderly and regularly prepares and reports its financial statements in a timely manner. By the time accounting department carried out socialization through technical guidance, the attendance rate of financial managers of local work units is very high. The local work units also regularly hold coordination relating to new policy and accounting system that they do not understand. Although in practice there are shortcomings that must be fixed in financial accountability, especially in asset management issues, in the overall, the government of Jombang has already implement good financial accountability.

Financial accountability, at the beginning of its process, is only as a formality, As time goes on the mechanism of reward and punishment by the center of implementation of financial accountability has been institutionalized and integrated into the organization, as expressed by the informants (Head of Accounting) below:

"Over time, all local work units understand the importance of financial accountability, indeed in the early years, they did it because of fear to Audit Supreme Board, but the thought was shifted little by little into a form of responsibilities".

INSTITUTIONALIZATION MANAGERIAL ACCOUNTABILITY

The process of institutionalization of managerial accountability in Jombang cannot be separated from the current reforms in Indonesia. The publication of a package of state financial laws, i.e. Act 17 of 2003, Act 1 of 2004, Act 15 of 2004, and Presidential Decree No. 7 of 1999 on Performance Accountability of Government Agencies, has been implicated in the financial and performance reporting system in Indonesia. Prior to publication of the rule, government agencies do not have the obligation to account for budget and performance achievements. After the implementation of The Accounting Government Standar and The Government Performance Accountability System, the institution is required to report about what has been entrusted to government agencies, namely by making financial statements and performance reports. Financial and performance reporting in government institutions is an important part to improve the accountability and the performance of governmental bureaucracy.

Phase innovation can be shown with the issuance of Law No. 28 of 1999 on Clean and Corruption-Free State, and Presidential Decree No. 7 of 1999 on Performance Accountability of Government Agencies, which instructed all institutions to carry out performance accountability of government agencies as a form of accountability in achieving the mission and organizational goals, and reporting Performance Accountability Report of Government Agencies to the President periodically. Subsequent changes related to the regulation of performance accountability is began with the issuance of Government Regulation No. 8 of 2006 on Financial Reporting and Performance, and the Regulations of Ministry of Administrative Reform and Bureaucratic Reform No. 29 of 2010 Concerning the Establishment of Guidelines for the Preparation and Performance Reporting Performance Accountability Government Agencies. With the issuance of regulations and legislation related to performance accountability, the

government of Jombang is responded by making adjustments to the institutional structure that has the main task and function in the preparation of performance accountability report. At first, the task of drafting Performance Accountability Report of Government Agencies is in planning board. Since 2013, this task is delegated to Organization Department, the information submitted by the Head of Organization Department as follows:

"The task of drafting Performance Accountability Report of Government Agencies delegated to the organization department in 2013, before it, the duty exists on planning board".

Diffusion phase is the deployment phase of innovation in the organization's members. The most dominant in spreading managerial accountability is through socialization. The results showed that the government of Jombang is less socializing managerial accountability. As the information submitted by the Head of Budget and Head of Organizations as follows:

"We not regularly held training related to socialization of new legislation to increase the capacity of performance reporting sector departments".

"Socialization does not need to be done in response to the new policies and regulations governing performance accountability, because all is clear in the rules and does not require further explanation. Socialization may be carried out in coordination with the program organizer regional work units, because one of their tasks is drafting the report, and we are concerned to produce the data. But often when we ask for the data, they do not give immediately because of bussiness".

The processes of institutionalization are often followed by a subsequent process called legitimacy. The function of legitimation is to make understanding that has been institutionalized objectively available and subjectively plausible. Stages of legitimacy in this study in forms of compliance to rules and regulations from central government. The government of Jombang did not publish the legal framework such as distric regulations as technical rules for local implementation, as expressed by an informant (Head of Organization and Head of the Budgeting) as follows:

"Regulation from the central government is clear, there should be no derivative legislation again because nothing needs to be adapted to technical directives".

"So far, there has been no legal products such as regulations, distric regulations related to policies or regulations on managerial accountability. So, technical directives are only from the central regulation".

Deinstitutionalization phase can be seen from the significant changes related policies of managerial accountability. In the context of this study, issuance of Presidential Decree No. 29 of 2014 concerning Accountability System of Government Agencies's Performance is the phase of deinstitutionalization on managerial accountability in local government of Jombang. Presidential Decree No. 29 of 2014 mentions that the performance report must be based on the use of the budget that has been allocated to each program and activity, not only the fulfillment of the objectives. Governance Performance Report of regional work units, before being handed over to the Regent, shall be reviewed by the Governmental Internal Supervisory Apparatus. With the regulation, local governments will have the challenge to further improve managerial accountability. The organizational structure, the legal framework that supports the establishment

of managerial accountability, must also be prepared. In this case the Inspectorate is a business unit that has the duty and responsibility to perform this task.

From some mechanisms of financial accountability Institutionalization process, the most dominant is the coercive isomorphism. This is the most powerful mechanisms of isomorphism found in the government of Jombang regency linked to managerial accountability. Compliance with regulatory and obligations is shown by the documents evaluation of Performance Accountability Report of Government Agencies in 2012 that gives the highest score for the accuracy of the reporting date, i.e a maximum of three (3) months after the fiscal year ends.

However, in practice the pressure in the form of regulations is not very effective compared to the regulatory pressure on financial accountability. In some cases, there is a passive attitude and response such as the use of performance indicators and performance measurement. One of the triggers was the absence of reward and punishment mechanism on managerial accountability, as captured on interviews with an informant (head of planning board) below:

"Regulation from the central government related to managerial accountability carried out with adjustments. This is because the rules given are not absolute, especially n that there is no sanctions ".

The capability of an institution to be institutionalized within an organization depends on self mechanism that can be applied reward and punishment. Likewise with the process of institutionalization of financial accountability in the government of Jombang. Regulations and policies relating to managerial accountability have not been able to institutionalize because they are not supported by reward and punishment from central government. The only sanction mechanism is morally through the publication of grade on the value of accountability for performance issued by the Ministry of Administrative Reform and Bureaucratic Reform.

Imitative behaviors were also found in the process of institutionalization of managerial accountability. Mimetic isomorphism in managerial accountability occurs through improved planning and Performance Accountability Report of Government Agencies preparation. This is the result of a comparative study (benchmarking) to some local governments that have already been successful and have good managerial accountability. The study found that there are at least 4 (four) city in Indonesia that was once used as a study destination (benchmark) the government of Jombang, they are Badung, Yogyakarta, Banyuwangi and Aceh Barat. Banyuwangi and Aceh Barat are selected as comparative study destinations because they have a good planning systems. In fact, Banyuwangi representative of East Java in an city appraisal and awarded with the best planning by National Planning Board. The city of Yogyakarta was chosen as another comparative study destination in addition to the grade "B" in the assessment report, has implemented Government Performance Accountability System. Such exposure may indicate symptoms of mimetic isomorphism in the process of institutionalization of managerial accountability.

Normative isomorphism mechanism take places, among others through cooperation with government agencies such as the Financial and Development Supervisory Agency. Article 2 and 3 Presidential Decree of Republic Indonesia No. 192 of 2014 stated that Financial and Development Supervisory Agency has the task of conducting government affairs in the field state/regional financial supervision and national development supervision. Meeting of Understanding (MOU) between the government of Jombang and Financial and Development Supervisory Agency associated with assistance in preparing the preparation of the Performance Accountability Report of Government Agencies is start planned for the year of 2013. It is in

contrast to MOU assistance related to the preparation of Local Government Financial Report which started in 2008.

The results of the documents examination and interviews show that the presence of Financial and Development Supervisory Agency in realizing managerial accountability of the government of Jombang does give active contribution and role, as presented by an informants (Head of Organization) as follows:

"The role and contribution of Financial and Development Supervisory Agency or other institutions in the improvement of managerial accountability, in this case the preparation the Performance Accountability Report of Government Agencies of the government of Jombang is not obtrusive. We (Organization Departement) as an institution that has the task of preparing and reporting the Performance Accountability Report of Government Agencies of the government of Jombang never do a cooperation agreement (MoU) with the Financial and Development Supervisory Agency or other institutions".

From documents observations on the latest MoU between Financial and Development Supervisory Agency and the government of Jombang No. 180/1/415.10.1/2015 dated January 15, 2015, it is found that the scope of activities of Financial and Development Supervisory Agency assistance for managerial accountability of 2015 is helping the preparation of Performance Accountability Report of Government Agencies and assisting in the preparation of Government Performance Accountability System. Normative isomorphism mechanism is more evident during Local Government Financial Report audit by Supreme Audit Agency, where Performance Accountability Report of Government Agencies is one of the documents that must be completed at the time of the audit, as stated by the informant (Head of Organization Departement) as follows:

"At the time of the audit, the Supreme Audit Agency definitely inquire the Performance Accountability Report of Government Agencies document. Indeed, no special inspection related documents took. The Supreme Audit Agency also does not provide any recommendations".

Decoupling may occurs in the process of institutionalization of an organization. On one hand, the process of internalization can make the organization really solid and there is no affectation or effort to make organization looks strong outside, but actually fragile and full of affectation inside (Rahayu, 2015). This is based on willingness to obey the regulation and external pressure, but everything was ceremonial and superficial. Indications of decoupling found in this study appeared due to limited human resources and management commitment to the importance of managerial accountability. Decoupling in managerial accountability can be seen in the planning process by Planning, and Budget section, performance measurement and reporting by the Organization Department, and performance evaluation by the Inspectorate. In the planning process, there are many inconsistencies between planning and execution (budget). Further, the preparation of the planning and budget does not optimally use the criteria of specific, measurable, achievable, relevant, and timely (SMART). Other decoupling behavior that can be found is the absence of Analysis of Expenditure Standards usage in the preparation of programs and activity budget, even if the government of Jombang has already had such policies that are adjusted annually. Performance measurement and reporting by organizational department is also marred by the behavior of decoupling. One of the symptom is the failure in the arrangement key performance indicators. Measuring performance, organizations department solely relies on the description contained in the Medium Term Development Plan indicator.

The case also happens in the performance evaluation conducted by the inspectorate. Until 2015, the inspectorate has not executed the task of performance evaluation. Performance evaluation activities by Inspectorate will start in 2016. Other forms of decoupling are improper function of institutional roles and responsibilities in the managerial accountability, i.e. in the preparation of Performance Accountability Report of Government Agencies. This is evident in the lack of coordination and communication between local work units that is the leading sector in the preparation of Performance Accountability Report of Government Agencies, namely Planning Board, Organization department and the Inspectorate. Coordination and communication only rely on the relationship between personals, not inter-institutional, as stated by an informant (Head of Organization Department) as follows:

"For the coordination of Local Government Financial Report, I usually ask directly to the related local work units, on the basis of inter-personal relationships, not on behalf of any institution"

Of the five strategic response to changes, what appears is acquiescence and avoidance strategies . Organizations receive a new institution dutifully and make it as a habit. Adherence is run imitatively by emulating other organizations that are considered successful in institutionalizing institutions (DiMaggio and Powell, 1983). Acquiescence strategy is visible in daily activities in achieving managerial accountability that has been based on the applicable laws and regulations, although in practice there are still many incompatibilities. Other forms of activities are doing a comparative study to districts that have been successful in the implementation of managerial accountability.

Avoidance strategy is carried out by hiding nonconformities in organizational practice. Organizations hide incompatibility by carrying out affectation ritual and ceremony (Meyer and Rowan, 1977). It can be seen from the activities undertaken to realize the managerial accountability in everyday practice. Although it has been implemented, but the activity is still at the level of formality. Local Government Financial Report had been prepared every year, but had not provided maximum quality. This suggests that the process of institutionalization of managerial accountability in the government of Jombang are still not well institutionalized. Hasselbladh and Kallinikos (2000) states that the process of institutionalization includes the relationship between the three (3) things: ideals, discourses and technique controls. Determination of the ideal conditions are delivered through a specific statement, written strategy and definition. Discourse can be in forms of task specification, items and involved social roles and the depiction of the relationship between them. Technical control measures may include the development of models and systems of measurement and evaluation system. If an organization requires a certain ideal conditions to be achieved, it will be followed by efforts either in specification of tasks, principles of performance, new techniques and methods in control.

Managerial accountability is still not institutionalized well in the government of Jombang because there is no support from the parties who have authority or individuals that have power, or organization (Meyer and Rowan, 1977). Artley (2001) stated that the commitment of high management will be able to improve performance accountability. The absence of a specific statement contained in Medium Term Development Plan of Jombang, realizing managerial accountability with increased the Performance Accountability Report of Government Agencies grade acquisition from CC into B shows that the commitment of top management is still absent. Cavalluzzo and Ittner (2004) states that management commitment can be realized through the

allocation of goals, strategies and resources and political support necessary to motivate or suppress others who deny the existence of innovation.

CONCLUSION

The results showed that the process of institutionalization of financial and managerial accountability in local government of Jombang includes the step of innovation stage, diffusion stage, legitimacy stage, and deinstitutionalization stage. Innovation is shown by the adoption of a regulation that regulates the necessity to carry out both financial and managerial accountability. Diffusion is carry out by spreading new innovation, the most dominant are training, socialization, and technical assistance. Legitimacy occurs through the establishment of local laws, regulations and other laws as the basis for creating accountability. Deinstitutionalization can be seen from the significant changes related to financial accountability and managerial policies from the central government that will affect the existing conditions.

The results also show that the financial accountability has been institutionalized well. Financial accountability is reflected in the daily practices of members of the regional work units. Increased audit opinion of qualified become unqualified in fiscal years of 2013 and 2014 also show that financial accountability in the government of Jombang has been running well. The response given by each organization in financial accountability is acquiescence and compromise. The managerial accountability in the government of Jombang is still not institutionalized well, because there is no support from the authorities, or individuals who have authority, or organization. The absence of a specific statement to realize the increasing acquisition of "CC" in Local Government Financial Report grade to "B" showed that the commitment of top management is still none. Therefore, managerial accountability is not currently practiced daily by members of the organization, just a ceremonial administrative or a mere formality as the fulfillment of the obligations of the central government. The response given by each organization tends to acquiescence and avoidance. It can be seen from the quality of the Local Government Financial Report preparation, which is still aiming only for the fulfillment of obligations.

Decoupling phenomena also indicate that the process of institutionalization of accountability is not running well. Reward and Punishment Mechanism (RNP) is effective in the process of accountability institutionalization. Although it should be with or without RNP, local governments are supposed to provide accountability for the management of public funds both financial and managerial, especially in the era of bureaucratic reform. However, in practice, this mechanism encourage the implementation of financial and managerial accountability. On financial accountability, the response was very good because it is supported by a central mechanism of reward and punishment, which is from the Ministry of Finance. Awards of Regional Incentive Funds and punishment of delayed of General Allocation Funds and delayed of Spesial Allocation Funds become effective stimulus in the institutionalization of financial accountability. On the contrary, in the managerial accountability, the response given by local governments on regulation and legislation is not full adoption, this is due to the lack of Reward and Punishment Mechanism associated with the implementation of managerial accountability in the area. The commitment of top management (regional leader) as the highest executive authority of finance and management in local level are also important in the process of institutionalization of financial and managerial accountability.

REFERENCES:

- Amirya, M. 2011. *Development of Budget and Accounting System of Public Service Agency of Universitas Brawijaya*. Master of Accounting Program, Universitas Brawijaya, Malang, Indonesia.
- Akbar, R. 2012. Performance measurement in Indonesia: the case of local government. *Pacific Accounting Review*, 24(3), 262-291.
- Artley, W. 2001. *Establishing Accountability For Performance. The Performance Based Management Handbook*. Oak Ridge For Science and Education.
- Ashworth, R., G. 2009. Escape from the Iron Cage? Organizational Change and Isomorphic Pressures in the Public Sector. *Journal of Public Administration Research and Theory*. Vol 19.pp.165-187.
- Aucoin, P., and Heinzman, R. 2000. The Dialectics of Accountability for Performance in Public Management Reform. *International Review of Administrations Sciences*. Vol. 66.pp. 45-55.
- Barberis, P. 1998. The New Public Management and A New Accountability. *Public Administration*. Vol. 76, No. 3, pp. 451-470.
- Bovens, M. 2005. *Public Accountability*. in Ferlie, E., Lynn, L. and Pollitt, C. (eds) *The Oxford Handbook of Public Management*, Oxford: Oxford University Press.
- Carruthers, B. C. 1995. Accounting, Ambiguity and New Institutionalism. *Accounting, Organizations and Society*. Vol 20(4), pp.313-328.
- Cavalluzzo, K. S., and Ittner, C. D. 2004. Implementing Performance Measurement Innovations: Evidence from Government. *Accounting, Organizations and Society*, 29(3), 243-267.
- Djamhuri, A. 2009. *A Case Study of Governmental Accounting and Budgeting Reform at Local Authority in Indonesia: An Institutional Perspective*. Doctor Philosophy, University Sains Malaysia.
- DiMaggio, P. J., and Powell, W. 1983. The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organization Fields. In P. J. DiMaggio & W. W. Powell (Eds.), *The New Institutionalism in Organizational Analysis*. pp. 63-82.
- Goddard, A., and Assad, M . 2015. The Two Publics and Institutional Theory-A Study of Public Sector Accounting in Tanzania. *Critical Perspectives on Accounting*. pp.1-18.
- Gruening, G. 2001. Origin and theoretical basis of New Public Management. *International Public*. No. 4, pp. 1-25.
- Guthrie, J. 1998. Application of Accrual Accounting in the Australian Public Sector-Rhetoric or Reality?. *Financial Accountability and Management*, Vol.14 No. 1, February, pp. 1-19.
- Halim, A., and Kusufi. 2013. *Public Sector Accounting: Local Financial Accounting*. Fourth edition. Salemba Empat, Jakarta, Indonesia.
- Hasselblad, H., and Kallinikos, J. 2000. The Project of Rationalization: A Critique and Reappraisal of Neo-Institutionalism in Organization Studies. *Organization Studies*. Vol.21 No.4, pp. 697-7
- Hood, C.1991. A Public Management for All Seasons?. *Public Administration*. Vol.69, pp.3 -19.
- Hood, C.1995. The "New Public Management" in the 1980s: Variations on a Theme. *Accounting Organizations and Society*. Vol.20, pp. 93-109.
- Inung, P., and Akbar, R. 2015. Affective Commitment of Management, Implementation of Performance Measurement System, Accountability and Performance of Public Organization in Institutional and Structural Theory Perspective. *National Symposium on Accounting XVIII*. Sumatera Utara University, Medan, Indonesia. 16-19 September 2015.

- Jennings, P.D., and Greenwood, R. 2003. Constructing the Iron Cage: Institutional Theory and Enactment. *Organization-Environment*.pp.195-208.
- Karan, R. 2003. Selective Commercialisation of Public-Sector Accounting and its Consequences for Public Accountability. *Australian Accounting Review*, Vol. 13 No. 3, pp. 15-25.
- Kluvers, R., and John T. 2010. Mechanisms of Accountability in Local Government: An Exploratory Study. 2004. *International Journal of Business and Management*. Vol. 5, No. 7, pp 621-631.
- Kotsias, S. 2010. Managerial Accountability reforms in the context of the Greek public sector. Patterns of continuity and change, in organisational life: The case of the Hellenic Railway Organisation (OSE). *Disertation*. Heriot-Watt University School of Management and Languages.
- Mahmudi. 2013. *Public Sector Performance Management*. Second Edition. YKPN School of Management Sciences. Yogyakarta, Indonesia.
- Meyer, J.W., and Rowan, B. 1977. Institutionalized Organizations: Formal Structure as Myth and Ceremony. *The American Journal of Sociology*. Vol.83, No.2. pp.340-363.
- Mizruchi, M. S. and L. C. Fein. 1999. The Social Construction of Organizational Knowledge A Study of the Uses of Coercive, Mimetic, and Normative Isomorphism. *Administrative Science Quarterly*.
- Miles, M. B., and Huberman, A. M. 2007. *Analysis of Qualitative Data: The Source of New Method Handbook*, Indonesian University Press. Jakarta.
- Moloeng, L. 2014. *Qualitative Research Methodology*. Rosdakarya. Bandung. Indonesia
- Newberry, S. 2003. Sector Neutrality and NPM incentives: Their use in eroding the public sector. *Australian Accounting Review*, Vol. 13 No. 2, pp. 2834.
- Nurkhamid M. 2008. Implementation of Innovation Performance Measurement System of Government Institutions. *Journal of Government Accounting*. Vol. 3, No. 1, Oktober. 45–76.
- Oliver, C. 1991. Strategic Responses to Institutional Processes. *The Academy of Management Review*. Vol. 16(1), pp. 145-179.
- Parker, L., and Gould, 1999. Changing Public Sector Accountability: Critiqueing New Directions, *Accounting Forum*. Vol.23, pp. 109-135.
- Rainey, H.G. 2009. *Understanding and Managing Public Organization*. Fourth Edition, 2009, Published by Jossey-Bass A Wiley Imprint 989 Market Street, San Francisco, CA 94103-1741.
- Rahayu, S. 2015. *Budgeting of School Operational Assistance Fund (BOS) in New Institutionalization Sociology Prespectives*. Doctoral Program in Accounting. Brawijaya University Malang, Indonesia.
- Randa, F. 2013. Understanding the Dimensions of Accountability at Local Government Organizations (Ethnographic Study At Toraja District Government). *National Symposium on Accounting XVI* Manado, Indonesia.
- Roberts, J., and Scapens. 1985. Accounting Systems and Systems of Accountability-Understanding Accounting Practices in their Organizational Context. *Accounting, Organizations and Society*, Vol. 10, No. 4,pp. 443-456.
- Sinclair, A. 1995. The Chameleon of Accountability: Forms and Discourses. *Accounting, Organizations and Society*, Vol. 20, No. 2/3, pp. 219-237.
- Solikin. 2005. Accountability Reporting In Indonesia: When Self-serving Attributions Exaggerate Perceived Performance. *Journal of Government Accounting*. Vol. 1, No. 1.
- Steccolini, I. 2004. Is The Annual Report An Accountability Medium? An Empirical Investigation Into Italian Local Governments. *Financial Accountability & Management*, 20(3).pp. 327-350.

- Suchman, M., C., 1995. Managing Legitimacy: Strategies and Institutional Approach. *Academy of Management Review*. Vol. 20 (3). pp.571-610.
- Sukoharsono, E.G. 2006. Alternative Research Qualitative Science Accounting: Biography, Phenomenology, Grounded Theory, Critical Ethnography and Case Study. *Macro and Micro Analysis: Indonesian Economic Policy*. Brawijaya University, Indonesia.
- Supreme Audit Agency of the Republic of Indonesia. 2014. Summary of Examination Results Semester I.
- Velayutham, S., dan Perera, M. 2004. The influence of emotions and culture on accountability and governance, Corporate Governance. *International Journal of Business in Society*, Vol. 4, No. 1, pp. 52-64.
- World Bank, 2000. Governance: the World Bank's experience, www.worldbank.org