School of Accounting

The Relationship Between Adopting and Utilizing a Centralistic Management Control System in Indonesian Local Government: Impacts on Organisational Learning

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Declaration

To the best of my knowledge and belief this thesis contains no material previously published by any other person except where due acknowledgment has been made.

This thesis contains no material which has been accepted for the award of any other degree or diploma in any university.

The research presented and reported in this thesis was conducted in accordance with the National Health and Medical Research Council National Statement on Ethical Conduct in Human Research (2007) – updated March 2014. The proposed research study received human research ethics approval from the Curtin University Human Research Ethics Committee (EC00262), Approval Number #ACC-05-14.

Signature:

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Abstract

Associated with the emergence of a new managerial approach known as new public management (NPM), accountability and performance measurement have become two essential elements in public sector reform processes (Akbar, Pilcher, and Perrin, 2012). Accountability has become a significant influential force in driving a greater interest in measuring government performance (Greiling and Halachmi, 2013b). A wide range of public management reforms for public sector organisations throughout the world have been initiated with the intent of holding public sector agencies accountable. For example, the reporting of financial and non-financial measures to broader audiences has been a common approach employed to enhance public sector accountability (Christensen and Skærbæk, 2007). Indonesia has joined the growing trend of developing countries whereby managerial control has become a cornerstone in a bureaucratic environment. To reform public sector management, the President required all public sector entities to adopt a management control system (MCS) known as Sistem Akuntabilitas Kinerja Instansi Pemerintah (SAKIP). SAKIP allows and encourages agencies to describe their strategic objectives and key performance indicators while at the same time linking these to agency budgets.

The main objective of this research was to investigate the implementation of SAKIP in the Indonesian local government (ILGs) and its impact on ILGs' organisational learning capabilities. The annual evaluation of SAKIP's implementation in the Indonesian Local Governments (ILGs) signals the dynamic in the institutional environment that may influence the effectiveness of SAKIP's adoption and use. The findings are expected to highlight the complexity and dynamic process of adopting and implementing a MCS such as SAKIP in a highly bureaucratic environment, in this case the ILGs.

While there is a significant body of literature exploring the relationship between strategy and MCS, studies that link the adoption and use of centralistic MCS and organisational learning in government are still limited. In the context of the Indonesian public sector, no study has linked this dynamic in the institutional environment with the diagnostic and interactive use of SAKIP as a means to enhance organisational learning capabilities in ILGs. This thesis addresses these gaps in the management control literature by providing insights into how a management control practice, driven by the central government, became accepted and modified by the local governments in Indonesia. This thesis also provides a deeper understanding of the relationship between the utilisation of a control system and its impact on organisational learning capabilities

leading to ILGs strategic success. The research used a mixed methods approach by incorporating elements of both quantitative and qualitative research. It proposes a conceptual model developed from the literature that observes factors surrounding adoption of SAKIP by ILGs and how those factors influence SAKIP's utilisation and ILGs organisational learning capabilities. Institutional theory is used to identify and explain the process represented in the model and to answer the research questions.

The findings of this research are: (i) regulations from central government agencies are still able to impose coercive pressures upon public sector organisation's that affect their decisions to adopt and implement new systems; (ii) ILG's leader and top management are important in SAKIP's implementation. Moreover, their perception toward the importance of SAKIP influences the degree of SAKIP utilisation in ILGs; (iii) central government agencies have important roles in facilitating the process of SAKIP's adoption and implementation. With their resources and knowledge, central government agencies are able to impose effective normative pressures upon ILGs to implement SAKIP; (iv) the demand to implement SAKIP is conflicted with other institutionalised elements in ILGs; (v) the adoption of SAKIP does not lead to the diagnostic use of the MCS system. It positively contributes to the interactive use of SAKIP but it only provides a small effect size; (vi) ILGs strategically alter their institutional scripts to align SAKIP innovation with the organisational characteristics and the complexity within their environment; (vii) in order to achieve legitimation and avoid negative attention, ILGs respond to conflicting institutional demands by diagnostically and interactively using SAKIP to meet minimum regulatory requirements; and (viii) the ILGs' strategic response of compromise brings an undesirable consequence to the organisational learning capabilities of ILGs. The application of institutional theory helps explain the findings and provides a valuable insight into the influence of ILGs and other institutional actors on altering SAKIP to maintain pre-existing relationships with other stakeholders.

The contribution of this research relates to empirical findings that enrich MCS research in the public sectors of developing countries. The research also contributes to the utilisation of institutional theory to explore the responses of public sector organisations' as they seek to accommodate and satisfy all institutional referents in the face of conflicting demands.

Acknowledgements

Table of Contents

List of Appendices

List of Figures

List of Tables

List of Abbreviations

Bappeda	Badan Perencanaan Pembangunan Daerah/Local Government Development and Planning Department
Bappenas	Badan Perencanaan Pembangunan Nasional/the Agency for National Development and Planning
BPK	Badan Pemeriksa Keuangan/Government External Auditor
BPKP	Badan Pemeriksaan Keuangan dan Pembangunan/Government Internal Auditor
DAK	Dana Alokasi Khusus/The specific-purpose fund
DAU	Dana Alokasi Umum/The general-purpose fund
DBH	Dana Bagi Hasil/The shared-revenue funds
DPRD	Dewan Perwakilan Rakyat Daerah/Local Parliament
GR	Government Regulation
IA	Internal Audit Department
ILG	Indonesian Local Government
ILPPD	Informasi Laporan Penyelenggaraan Pemerintahan Daerah/ A summary of LPPD report. It is published in the mass media.
Kementrian PPN/Bappenas	Kementrian Perencanaan Pembangunan Nasional/Badan Perencanaan Pembangunan Nasional/Agency for National Development and Planning
KPI	Key Performance Indicator
KPK	Komisi Pemberantasan Korupsi/Corruption Eradication Committee
LAKIP	Laporan Akuntabilitas Kinerja Instansi Pemerintah/Government Agency's Performance and Accountability Report
LAN	Lembaga Administrasi Negara/Public Administration Agency
LKPJ	Laporan Keterangan Pertanggung Jawaban/an annual accountability report of a mayor/regent submitted to local parliaments
LOC	Levers of Control

LPPD	Laporan Penyelenggaraan Pemerintahan Daerah/An annual report of a local government on the implementation of its decentralization and co-administration tasks
OAD	Organisation Administrative Department
MCS	Management Control System
MOF	Ministry of Finance
MOHA	Ministry of Home Affairs
MSAEBR	Ministry of State Apparatus Empowerment Bureaucracy Reform
NIS	New Institutional Sociology
NPM	New Public Management
OB	Organisation Administrative Bureau/department
OIE	Old Institutional Economics
OPD	Organisasi Perangkat Daerah/Local Government Department
PI	Presidential Instruction
PLS-SEM	Partial Least Squares – Structural Equation Modelling
PR	Presidential Regulation
SAKIP	Sistem Akuntabilitas Kinerja Instansi Pemerintah/Performance and Accountability System
SEM	Structural Equation Modelling
SKPD	Satuan Kerja Perangkat Daerah/Local Government Department – old version of OPD

Chapter 1: **Introduction**

1.1   **Introduction**

Associated with the emergence of a new managerial approach known as new public management, accountability and performance measurement have become two essential elements in public sector reform processes. Indonesia has joined the growing trend of developing countries whereby managerial control has become a cornerstone in a bureaucratic environment. To reform public sector management, the President required all public sector entities to adopt a management control system (MCS) known as Sistem Akuntabilitas Kinerja Instansi Pemerintah (SAKIP). This research aims to investigate the adoption of a centralistic management control system (SAKIP) by local governments in Indonesia (ILG) and its impact on the ILG's organisational learning capabilities. It explores the complexity and dynamic process of adopting and implementing a MCS, such as SAKIP, in a highly bureaucratic environment – in this case ILGs. The issues were investigated through a mixed methods approach incorporating elements of both quantitative and qualitative research. This chapter covers the background of the thesis (Section 1.2), the gaps in the literature (Section 1.3) and research objectives and questions (Section 1.4), the overview of research methodology (Section 1.5), the overview of underpinning theory (Section 1.6), the significance and contribution of research (Section 1.7), the outline of the thesis (Section 1.8), and a summary of the chapter (Section 1.9).

1.2   **Background to the study**

Over the past 30 years, public sectors around the world have undergone significant change. The term New Public Management (NPM) was introduced in the 1980s and later became the dominant approach to public administration in many developed countries in Europe, United States and Australia (Bryson, Crosby and Bloomberg, 2014; Pilcher, 2011). The main aim of the NPM reform is to improve the performance the public sector by adopting private sector management techniques and emphasising on market mechanism in providing efficient good and services (Speklé and Verbeeten, 2014). There has been varying forms of NPM; however, its application to public sector is revolved around the seven basic principles of NPM. Hood (1995) described the basic

principles of NPM are: (1) more emphasis on professional management, (2) encouraging the use of standards to measure performance, (3) more emphasis on output control and results measured by performance indicators, (4) moving toward a decentralised system, (5) competition is seen as a preferred way to deliver effective and efficient government services, (6) implementing more private sector management practice and (7) emphasis on discipline and frugality in resource use. The NPM reform advocated public sector to shift their focus toward performance improvement, managing results and customer orientation (Nuhu, Baird, and Bala Appuhamilage, 2017).

Demand for greater efficiency and accountability becomes the main concern because of financial and budgetary constraints experienced by governments (Verbeeten and Speklé, 2015). NPM advocates the adoption of private sector management approaches and techniques such as strategic planning, priority setting, comprehensive program budgeting, customer responsiveness, contract employment for managers, performance auditing and monitoring employees' performance (Pérez-López, Prior, and Zafra-Gómez, 2015). The key purposes of establishing performance targets are to align individual goals with the organisation goals, and to guide public employees in achieving the organisations' objectives (Speklé and Verbeeten, 2014). NPM also initiates market mechanism to encourage competition among service providers. Market mechanisms through contracting out or putting a price on public services, are believed to be able to reduce cost and improve responsiveness of service providing agencies (Pérez-López et al., 2015). The market mechanism requires financial and performance information that is more comparable, transparent and useful for evaluating the implementation of a policy (Bryson et al., 2014). Therefore, the NPM reform endeavour to respond to public and political pressures by being more accountable and transparent while at the same time providing their services in an effective and efficient manner (Messner, 2009).

Following almost three decades of implementation, the effect of NPM reform on government organisational performance has shown mixed results (Nuhu et al., 2017; Pérez-López et al., 2015). The adoption of management technique from the private sector is followed by limited evidence that NPM indeed improves efficiency in public sector. For example, decentralisation and the creation of new and autonomous agencies have increased coordination cost and reduced efficiencies in public sector (van Der Kolk, Ter Bogt, and van Veen-Dirks, 2015). The contracting out public services to

private entities does not always lead to an increased flexibility or to a lower production cost through competition. However, the specific nature of public services has led to an absence of competition and limited cost saving achieved by contracting out (Pérez-López et al., 2015). The participation of private companies in providing public services can also create a goal conflict between profit and social benefit maximisation. Pérez-López et al. (2015) also noted the limited empirical evidence that shows the relationship between private-public partnership and efficiency of public services.

The increasing cost and inefficiency resulted from coordinating private agencies in the private-public partnership within NPM reform has also led to the introduction of post-NPM or Neo-Weberian Administration approach (Ibarra Salazar and Lopez De Arkos Martínez, 2013; Nuhu et al., 2017; Pérez-López et al., 2015). The approach proposes recentralisation by creating an integrated public services in order to achieve a better vertical and horizontal coordination of public agencies as opposed to fragmented agencies proposed by NPM (Nuhu et al., 2017).

Following the financial and political crisis that occurred in 1998, Indonesia embraced the concept of the NPM in an attempt to reform the public sector (Harun and Robinson, 2010). The reform aimed for greater transparency in government transactions and clearer accountability for results to be reported to the public. This was achieved by incorporating various performance reports (Rhodes et al., 2012). In terms of public sector reform, accountability and performance measurement are viewed as being two essential elements of NPM in public sector reform (Akbar et al., 2012).

Accountability in the public sector can be defined as efforts to maintain public trust by being answerable for behaviour and decisions made (Quinn and Schlenker, 2002; Romzek, 1987; Romzek, 2000). Accountability is seen as a positive quality of a public organisation being transparent and fair in conducting their business. Bovens, Schillemans, and 't Hart (2008) described it as a mechanism in which the citizen and interest groups are able to ask questions or express their opinion to the administrator's decisions, and the administrator can explain the justification of their decisions. Public sector accountability is acknowledged to be an important element in a democratic system where the acts of government are considered to be the reflection of the will of the public (Bourn, 2007; Peters, 2009). It explains the way policy and programs are developed and managed. Demands for greater accountability from the public sector are

frequently observed in political debates and public discussion. Transparency can be defined as "legal, political, and institutional structures that make information about internal characteristics of government and society available to actors both inside and outside of the domestic political system" (Otenyo and Lind, 2004, p.3). Calls for increased transparency require public sector entities to provide more financial and performance information that is comparable, relevant and useful for decision-making (Pilcher, 2011). By disclosing more information regarding the use of public resources, bureaucracy will be more exposed to public scrutiny. However, the increasing need for public sector entities to be more accountable and transparent, does not diminish the obligation for public sector entities to provide their services in an efficient and effective manner (Greiling and Halachmi, 2013a, 2013b; Messner, 2009). As the main intention of employing a control system is to hold individuals accountable for their actions and decisions, any discussion of accountability is strongly linked with management control systems (MCSs) and performance measurement (Anthony and Govindarajan, 2007; Batac, 2009; Hughes, 2003; Merchant and Otley, 2007).

Public sector accountability is acknowledged to be an important element in a democratic system where the acts of government are considered to reflect the will of the public (Bourn, 2007; Peters, 2009). It explains the way policy and programs are developed and managed. By objectively measuring the performance of government action, accountability provides a degree of assurance to citizens that any individual given the mandate to act on their behalf is doing their best to carry out these delegated tasks (Hughes, 2003). According to Dendi (2010, p. 3):

> "Performance measurement has been considered to be a management instrument to enhance the quality of services produced by public sector agencies. An effective performance measurement system can promote organisational learning and strengthen customer-orientation among public agencies. A coherent performance measurement regulatory framework and effective collaborative implementation efforts are essential to improve the performance of public agencies at all levels."

Therefore, performance measurement has played an important part in government agencies' efforts to meet the accountability demand (Christensen and Skærbæk, 2007; Harrison, Rouse, and De Villiers, 2012; Polidano, 2000). Through governmental performance measurement initiatives, the expectation is that public sector agencies will

improve operational efficiency and effectiveness, enhance decision making, and exhibit greater accountability for achieving results (Cavalluzzo and Ittner, 2004).

Accountability is also linked to an increase in transparency and organisational learning. It provides a mechanism in which the citizens and interest groups are able to ask questions of, or to express their opinion about, the administrator's decisions, and the administrator can explain the reason for and a justification of their decisions (Bovens, Schillemans, and Hart, 2008).

Organisational learning can be defined as as an organisation's ability to monitor environmental changes and adjust its processes, products, and services to capitalize on those changes (Simons et al., 2000). Organisational learning can also be defined as the process of detecting and correcting errors in order to maintain the characteristics of an organisation (Argyris and Schon, 1996). It develops knowledge from past actions to deliver more effective future actions.[1] Accountability facilitates organisational learning by enabling public sector agencies to use their performance information to stimulate managerial thinking, revise the strategies, improve operational performance, enhance decision making, and display greater accountability for achieving results (Ammons and Rivenbark, 2008; Ammons and Roenigk, 2015; Cavalluzzo and Ittner, 2004; Rhodes et al., 2012).

On the other hand, the demand for greater accountability also is accompanied by a negative consequence to organisational learning. Ebrahim (2005) argued that the desire to have more accountability arrangement such as audits, performance measures or other extra compliance-oriented reports can distract organisations from achieving their original goals.

The 1998 Asian financial crisis gave rise to government reforms in Indonesia, comprising the adoption of more democratic principles. Indonesia incorporated the concept of the NPM to reform the public sector. In October 1999, the legislative passed a decree that instructed government agencies to improve their efficiency, transparency and professionalism. Since the initiation of the reform, the President ordered all tiers of government, including central, provincial and district levels, to prepare a Laporan Akuntabilitas Kinerja Instansi Pemerintah, a performance accountability report known

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[1] Organisational learning is further elaborated and explained in Chapter 3.

as LAKIP and develop a performance measurement and accountability system known as Sistem Akuntabilitas Kinerja Instansi Pemerintah (SAKIP). The purpose of the SAKIP system was to integrate performance measurement into the management process and to promote efficiency, effectiveness, transparency and accountability within the Indonesian public sector.

SAKIP's position as the Indonesian government control system, became more important when the President launched the bureaucracy reform initiative in 2010 (Dwiyanto, 2011). This reform initiative aimed to implement clean government, provide fast and responsive public services, increase government program visibility, and modernize all agencies management system. The initiative used the implementation of SAKIP in government agencies as one of the reform milestones. The number of agencies that adopted SAKIP had also grown significantly. In 2011, there were 290 out of 612 Indonesia agencies that failed to fulfil the mandate to submit LAKIP to Minister of State Apparatus Empowerment and Bureaucracy Reform and Bureaucracy Reform (MSAEBR). All of these were local governments consisting of 3 provinces and 287 municipalities (Kompas, 2012). In 2014, all of Indonesian local governments (ILGs) claimed that they have implemented SAKIP (the system) and submitted LAKIP (the report) to MSAEBR.

After 15 years of LAKIP implementation, the government issued a Presidential Regulation (PR) 29/2014 on the 21st of April 2014 that clarified the difference between LAKIP and SAKIP. PR 29/2004 states that SAKIP integrates planning, budgeting, treasury, government accounting and performance reporting (Thahar, 2016). Whereas, LAKIP is the performance accountability report that is submitted to MSAEBR. SAKIP was designed to enhance accountability and help agencies to plan, measure and report their performance. According to PR 29/2014, agencies are required to describe their mission and vision; to prepare their strategic objectives and key performance indicators (KPIs); and to integrate KPIs with agencies budget. SAKIP can be classified as a management control system (MCS) that allows and encourages agencies to describe their strategic objectives and key performance indicators while at the same time linking them to their budget.

Every year, the MSAEBR assesses SAKIP's implementation in all Indonesian government agencies. The assessment covers the planning, reporting, and evaluation

process of agencies performance. The purpose of the evaluation is to analyse the implementation of SAKIP and give recommendations for improvement. Following a comprehensive evaluation process, each agency is given a score and then grouped into seven categories. The highest category is AA or excellent. Agencies with "AA" score are perceived to be the most accountable. The lowest category is D or very bad. Agencies with "D" score are perceived to be the least accountable or to have no accountability framework at place.

Besides transparency and clearer accountability in government, the other main theme of the NPM reform is the organisation's ability to improve their performance by detecting problems and applying the information gathered to influence future decisions (Moynihan and Landuyt, 2009). SAKIP has the potential to be utilised by ILGs' leaders to align strategic decisions with strategy implementations by providing them with information for learning and improving performance. Unfortunately, the role of SAKIP in tackling these issues is still unclear. Government agencies still report unsatisfactory programs outcomes indicating a continuing inability to learn from past experiences.

1.3   Gaps in the literature

Over the past decade, several studies have focused on implementation factors and the use of performance measurement systems in the Indonesian public sector, particularly in the ILG. Some studies have identified various factors that influence the successful adoption and implementation of performance management reform (Ahyaruddin and Akbar, 2016; Akbar et al., 2012; Harun and Robinson, 2010). Most studies acknowledge that the implementation of a performance-based control system in the Indonesian government is a complex issue. However, very few studies have focused on management control systems (MCSs) and the antecedent factors that drive the utilisation of control systems and effect on an organisation's ability to learn and achieve desired performance outcomes (Anthony and Govindarajan, 2007; Bisbe and Otley, 2004; Henri, 2006; Kloot, 1995; Mahler and Posner, 2014; Nuhu et al., 2017). In the context of the Indonesian public sector, no study has linked this dynamic in the institutional environment with the diagnostic and interactive use of SAKIP as a means to enhance organisational learning capabilities in ILGs. Factors surrounding adoption of SAKIP by ILGs and how those factors influence SAKIP's utilisation and ILGs organisational learning capabilities are key variables examined in the conceptual model

employed (see Chapter Three for more detail on the theoretical framework and research design).

While there is a significant body of literature exploring the relationship between strategy and MCS, studies that link the adoption of a centralistic MSC and organisational learning in government are still very limited. This study addresses this gap in the literature by examining the adoption of SAKIP in the ILG and the relationship between the use of SAKIP and ILGs' organisational learning capabilities. Despite the increasing attention received by MCS studies over the last two decades, most of the research is focused on the for-profit sector, where the respondents have some degree of flexibility in designing their MCS. Since SAKIP was designed and initiated by MSAEBR, this study investigates the impact of adopting and implementing a centralistic control system by local government.

Within the performance management literature, organisational learning is viewed as a very important concept that links the ability of public organisations' managers to use knowledge and experience gained from performance information in order to make better decisions and improve their performance (Moynihan and Landuyt, 2009). The capability to learn becomes more important in public sector agencies due to the many interests involved in their policy making process. Most of the organisational learning research is focused on the for-profit sectors. Despite the substantial reform in the public sector, relatively little attention has been given to the development of organisational learning concepts in the public sector (Gilson, Dunleavy, and Tinkler, 2009; Mahler and Posner, 2014; Nuhu et al., 2017; Rashman, Withers, and Hartley, 2009). The concept of organisational learning in the government sector is different to those of the private sector as the goals and agency interrelationships are distinct. This study specifically focuses on the diagnostic and interactive use of SAKIP and organisational learning leading to improve ILG outcomes.

This research addresses these gaps in the management control literature by providing insights into how a management control practice, driven by the central government, has become accepted and modified by Indonesian local governments. This research also provides a deeper understanding of the relationship between the utilisation of a control system and its impact on organisational learning capabilities leading to improved ILGs outcomes.

1.4   Research objectives and questions

The main objective of this research is to investigate the implementation of SAKIP in ILG and its impact on organisational learning capabilities. The annual evaluation of SAKIP's implementation in ILG signals the dynamic in the institutional environment that may influence the effectiveness of SAKIP's adoption and use. The findings highlight the complexity and dynamic process of adopting and implementing a MCS, such as SAKIP, in a highly bureaucratic environment – in this case ILGs. While the reform, through the mobilization of a new system, aims at improving the performance of the public sector operation, there is no guarantee that a government will be any more accountable nor will it provide higher quality goods and/or services (Harun, 2012). Previous literature shows that the mobilization of a new management accounting system that challenges the values of the old system may encounter some form of resistance and barriers to change (Norhayati and Siti Nabiha, 2009; Siti Nabiha and Scapens, 2005). Harun and Robinson (2010) identified legal issues, the lack of political support, and lack of skilled human resources as implementation barriers that may threaten the intended purposes of public sector reforms in Indonesia.

This research examines the pressures surrounding the adoption and use of SAKIP by using institutional theory[2]. Institutional theory is used to understand the relationship between organisational structures and the wider social environment. The theory is suited to explain the powers that influence individuals and organisational behaviours within social structures (Broadbent and Laughlin, 2005). It further holds that organisations attempt to accommodate internal and external pressures to build their image in accordance with a set of society's rules and expectations (Kasperskaya, 2008). The development of institutional theory has led to a distinction between old institutional economics (OIE) and new institutional sociology (NIS). NIS proposes that organisations within the same field face competing institutional demands. On the other hand, the OIE proposes that the institutions' interpretation of the institutional pressures surrounding the organisation and transformation into organisational practices will be different from one organisation to another (Delmas and Toffel, 2004). Human actions and routines are also factors that shape institutions. Therefore, the process of conforming to institutional pressures is not always passive. Despite the distinction between the NIS and OIE, this

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[2] Institutional theory has been widely used to understand the process of change in organisations (Ashworth et al., 2009; Pilcher, 2011). The overview of the theory is described in Section 1.6. The theory is further elaborated and explained in Chapter 3

study will combine characteristics from both theories (DiMaggio and Powell, 1983; Greenwood and Hinings, 1996; Meyer and Rowan, 1977; Munir and Phillips, 2005). Institutional theory is used in this study because it has been empirically used in observing the isomorphic pressures in the diffusion of new practices or programs among organisations (Aurini, 2006; Cavalluzzo and Ittner, 2004; Pilcher, 2011). Opinions were sought from key internal stakeholders of ILG regarding the institutional pressures and factors affecting the use of SAKIP in their organisations. This was achieved by a combination of survey and semi-structured interviews. The data from the survey was analysed using a structural equation model that relates the adoption and utilisation of SAKIP to the diagnostic and interactive use of SAKIP – hypothesised to affect organisational learning. The conceptual model shown below in Figure 1.1 below is based on an adapted version of Upping and Oliver (2011) accounting change model and Widener (2007) levers of control framework model.
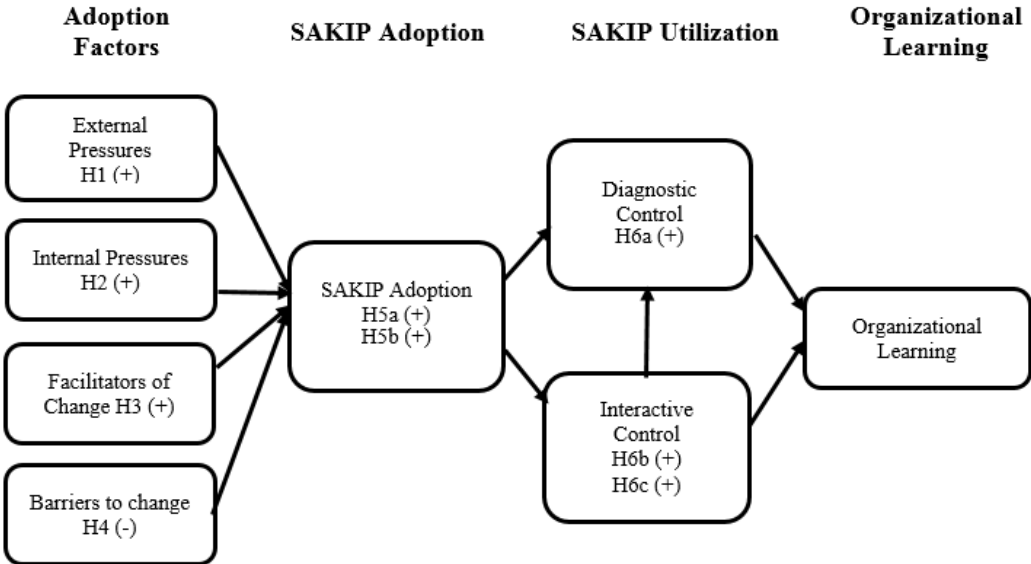
Figure 1.1: Conceptual Schema

Full details of the conceptual model variables and hypotheses developed and tested are provided in Chapter Three that outlines the theoretical framework and research design of the study.

The implication of isomorphic pressures on SAKIP were investigated and discussed. The findings highlight the complexity and dynamic process of adopting and implementing a MCS such as SAKIP in a highly bureaucratic environment – in this case the Indonesian public sector. In turn, the study provides possible solutions to help increase SAKIP's utilisation in ILG, thus encouraging greater accountability in the Indonesian public sector.

Therefore, the objectives of this research were to:

1. Investigate the adoption of a centralistic management control system known as SAKIP by local governments in Indonesia.

2. Examine the relationship between the diagnostic and interactive use of SAKIP and organisational learning in ILG.

3. Determine the different motivations and scenarios behind the adoption and the use of a centralistic control system in local government.

4. Establish a framework for adopting and implementing a management control system (MCS) in the public sector to facilitate effective practice.

The subsequent research questions were:

1. What are the factors that influence the adoption of SAKIP in local governments in Indonesia?

2. Does the adoption of SAKIP influence the diagnostic and/or interactive use of SAKIP in local governments in Indonesia?

3. Does the diagnostic and/or interactive use of SAKIP affect local governments' organisational learning capabilities?

4. Do the isomorphism mechanisms of institutional theory aid in explaining the utilisation of a centralistic MCS as local governments' attempt to comply with the associated regulations?

1.5 Overview of Research Methodology

To answer these four research questions, this research used a mixed methods approach by incorporating elements of both quantitative and qualitative research. The approach of establishing quantitative methods complemented with elements of qualitative methods improves the credibility of results since the strengths of one approach counterbalanced the weaknesses of the other (Akbar, 2011; Modell, 2005). The combination of both

methods provided a more holistic contextual understanding of survey results and in explaining anomalies emerging from the survey (Modell, 2005).

Table 1.1: Research Phases

Phase	Research Design	Chapter	Outcome of phase
1	Conduct literature review and develop research model.	Chapter 2 & 3	Identified the gaps in the past literature and developed a research model
2	Conduct quantitative survey	Chapter 4 & 5	Identified significant factors affecting the adoption and utilisation of SAKIP.
3	Conduct qualitative survey	Chapter 6	Interpreted the results of the quantitative survey.

The research was conducted in three distinct phases. Table 1.1 illustrates the three phases of the study. The first phase focused on providing a critical literature review to facilitate the development of the research model. The concept of accountability in the public sector is discussed, followed by describing the adoption and use of SAKIP as a centralistic management control system in ILGs. The theoretical model of the adoption of SAKIP in ILG and the relationship between the use of SAKIP and ILGs' organisational learning capabilities is also described. After identifying and accommodating the gaps found in the literature, the outcome of phase 1 was development of the research model.

The second phase focused on the quantitative survey. The survey was conducted in April and May 2014. The survey identified factors that affect the adoption and utilisation of SAKIP in ILG. Factors that influence the ILG organisational capabilities, as well as an improved understanding of the conceptual relationships between adoption and utilisation of SAKIP and organisational learning was also elicited. The survey questions were adapted from questionnaires used by Upping and Oliver (2011) and Widener (2007). Some original questions were modified to adapt the questionnaire to fit the context of the current study. Following a pilot study, the survey was sent to all

Indonesian local governments – Provinces, Districts and Cities. Phase 2 identified the relevant factors that affect the implementation of SAKIP and ILGs learning capabilities.

The third phase focused on qualitative interviews. Semi-structured interviews with 20 ILGs senior officials were conducted. Interviews explored and elicited responses that provided supporting explanations of the results of the quantitative findings. Open ended questions were used to provide an opportunity for interviewees to express their opinions about the survey results as well as provide insights into more specific organisation complexities that may not have emerged from the questionnaire. (Tucker and Parker, 2013; Tucker, Thorne, and Gurd, 2008). Phase 3 provided the patterns, themes and elements that assisted in explaining some of the significant (and insignificant) relationship among variables identified in the quantitative stage. The results were described and discussed in line with the research questions along with the provision of empirical support on the impact of institutional isomorphism on the use of SAKIP and ILGs learning capabilities.

1.6   Overview of underpinning theory

Institutional theory has been widely used to understand the process of changes in organisations (Ashworth, Boyne, and Delbridge, 2009; Pilcher, 2011). The focus of the theory is on the process by which routines; norms, rules and structure become accepted guidelines for social behaviour (Scott, 2014). The contribution of external environment, such as social, political and cultural factors, in shaping organisational form and process is emphasised (DiMaggio and Powell, 1983; Meyer and Rowan, 1977; Ruef and Scott, 1998; Scapens, 2006). Meyer and Rowan (1977) added that organisations can gain social legitimacy by maintaining good relationships with their external environment.

This research observed the interaction between ILGs and their institutional environment by using institutional theory as a framework. The study will emphasise the new institutionalism concept that suggests the process of institutionalisation starts in the field level that leads organisations to become similar to others located within the same field. At the same time, the study will include the OIE concept by recognizing organisational actors who take a role as institutional entrepreneurs as their reaction to the ongoing institutionalisation process. Institutional theory was used to identify and explain the source of isomorphism; the interplay between institutional and technical environment;

and the response from organisational actors such as ILGs or the MSAEBR. Finally, the theory was used to describe factors that led ILGs to partly used SAKIP as their appropriate response to achieve legitimacy and to meet the conflicting demands of stakeholders.

1.7   Significance and Contribution of Research

This research provides an important contribution at practical and theoretical levels.

Firstly, this study investigates the complexity surrounding the local government environment in an emerging economic and political system, including the structural constraints that create challenges for ILGs in respect to organisational learning and innovation. Indonesia is the fourth most populous country in the world and it operated under a centralised government system for almost 53 years. In the reform era, Indonesia changed the governmental system from centralised to decentralised structures as part of the effort to have more accountable and transparent sector entities. On the other hand, the implementation of a centralistic management control system in ILGs is still mainly driven by central government pressures. The findings can be used to the complexity and the dynamic process of adopting NPM-style control systems by highly bureaucratic local governments and improve an innovative culture that emphasises dialogue and discussion in an emerging economic and political system,

Secondly, in light of the limited research on a centralistic MCS in the Indonesian public sector (or other developing countries), this study is one of the first known studies that has examined the diagnostic and interactive use of the mandatory MCS practices in a local government context using institutional theory.

Prior research has not specified the way ILGs have utilised the performance information collected. The use of the diagnostic and interactive controls in the empirical model are important to explain the link between the utilisation of a control system and the impact on organisational learning capabilities. Findings will contribute to the growing literature on MCSs by focusing on the adoption and use of MCSs as a means to achieve organisational learning capabilities at provincial and municipal levels of government in Indonesia. For example, the results of the interviews indicate there were only limited numbers of ILGs that diagnostically used SAKIP on a regular basis. These were ILGs with a good SAKIP implementation score. The leaders of these ILGs used information

from SAKIP to monitor all departments' achievement, evaluate the head of departments' performance and to link the reward and punishment policy to the managers' performance. In addition, the interviews indicated that most ILGs diagnostically used SAKIP only during the preparation and the submission of the ILG's consolidated performance report (i.e. LAKIP). For a majority of the year, ILGs relied mostly on internal budget versus actual performance reports.

Thirdly, this study investigates the process of adopting a NPM-style control system in the highly bureaucratic local government in Indonesia. This in turn, offers an opportunity to reveal the complexity and the dynamic process of change. The study, which views SAKIP as an integrated control system, provides insights into how performance measurement practices become accepted, resisted, or modified by local governments in Indonesia.

Fourthly, the thesis contributes to management accounting research by studying the relationship between adoption factors and the use of a new MCS in the public sector. As outlined in Chapter Three, these factors include: (1) external pressures, (2) internal pressures, (3) facilitators of change and (4) barriers to change. Despite the increasing attention received by MCS studies in the last two decades, most of the research is focused on the for-profit sector, where the respondents have some degree of flexibility in designing the MCS. Since SAKIP was designed and initiated by MSAEBR, this thesis investigates the impact of adopting and implementing a centralistic control system by local government organisations. Prior research in Indonesia that has linked the use of MCS to Upping and Oliver (2011) adoption model, particularly in a local government setting, has not been undertaken. This study developed a model combining research concepts from Upping and Oliver (2011) and (Widener, 2007). The model identified antecedent factors that drive the adoption of control systems by using Upping and Oliver (2011) adoption model. However, the study did not stop in the adoption stage. It continued to investigate and observe the relationship between the diagnostic and interactive use of the adopted control systems and how those factors influenced ILGs organizational learning capabilities by using the research concept from Widener (2007).

Fifthly, this research investigates the view of control systems as tools contributing to the implementation of the intended strategy and stimulating the emergence of new

strategies. In this study, combining diagnostic or interactive use of SAKIP to manage tensions between freedom to innovate and achieving pre-determined target in ILGs was observed. Finally, the positive or negative effects of the use of SAKIP on learning was investigated to expose the distinctive potential of SAKIP for ILGs. This will add a significant methodological contribution to the literature.

This research also provides insight into how the MSAEBR assesses or scores each local government agencies SAKIP's implementation. Following a comprehensive assessment process, each agency is given a score and then grouped into one of seven categories. The evaluation results from 2011 and 2016 assessments did not show any notable improvement in which most ILGs were still classified in the "Bad" category. Besides indicating poor SAKIP implementation and use, the poor assessment results also signal conflict in the demands to adopt SAKIP and other precedence taking institutionalised elements that require further investigation. This has not been explored in prior research but was examined in this study.

Findings from this study have practical significance as results will equip ILGs managers with a better understanding of the pressures and factors surrounding the implementation of SAKIP and allow them to identify areas that will improve the use of SAKIP in their ILGs. The empirical findings of this thesis are potentially important for regulatory bodies, local governments, central governments, and the users of local government performance reports. The findings can be used to develop and improve public sector governance and ILGs organisational learning capabilities.

From a theoretical perspective, there is evidence to support the use of isomorphic institutional theory as a productive framework for explaining the adoption and use of MCSs as a means to achieve organisational learning capabilities at provincial and municipal levels of government in Indonesia. Institutional theory describes the factors that drive organisations to fully or symbolically utilise new innovations in order to meet demands from different stakeholders. Internal and external stakeholders are identified as playing important roles in shaping the power in an organisation. This study improved our understanding by including actors that actively managed the competing institutional demands embedded in the field of ILGs. Besides simply accepting environmental pressures, ILGs were found capable of modifying an existing institutional prescription. In addition, the result of this study revealed how performance measurement practices

became accepted and actively modified by local governments in Indonesia. Overall, the results of this study generate important insights about the implementation of a centralistic management control system in Indonesian local governments.

1.8   Outline of the Thesis

This thesis is divided into seven chapters:

Chapter One introduces the research, by providing a concise background to the study, an outline of the research objectives and research questions, along with a summary of the overall research methodology and theoretical framework applied. Importantly the significance and contribution of the research and research scope is elaborated.

Chapter Two provides a summary of the existing literature, divided into four main themes relevant to this research. Firstly, the origin and the implementation of SAKIP as a centralistic MCS in ILGs is outlined. Secondly, the factors that help explain the ILGs decision to adopt SAKIP is examined. Thirdly, a critical review of past literature emphasising the concept of management control systems is described. Diagnostic and interactive use of a management control system and accountability in an organisation is highlighted. Finally, the concept of organisational learning that assisted managers in responding to organisational change is deliberated.

Chapter Three outlines the conceptual model variables and hypotheses developed and tested in this research. The conceptual model illustrates the relationship between the factors in adopting SAKIP; the associations between diagnostic and interactive use of SAKIP; and ILGs' organisational learning capabilities. Finally, the reason for using institutional theory as the theoretical base for this study is provided.

Chapter Four details the research approach, design and methodology applied in this research. The chapter describes the quantitative and qualitative research methods employed to analyse the collected data.

Chapter Five presents the methods and results of the quantitative research. The data obtained from the survey is analysed by using statistical descriptive analysis. Partial least squares (PLS-SEM) regression, using the SmartPLS 2.0 statistic computer program, was also used to test the hypotheses outlined in the conceptual model.

Chapter Six provides the results from the qualitative study. This chapter examines the evidence collected from the face-to-face in-depth interviews with managers in the ILG. The underlying themes and elements that explain the significant relationship among variables identified in the quantitative stage are outlined. Finally, the results were described and discussed in line with the research questions of this thesis.

Chapter Seven concludes the thesis by providing a summary of the results and key findings of the research. Secondly, the important contributions of this research are outlined. Thirdly, the managerial and policy implications of the research is highlighted. Finally, limitations and suggestions for future research are provided along with concluding remarks.

1.9   Summary

This chapter provides an overview of the structure of the thesis. The research objectives and questions are outlined. The primary objective of the research is to develop a conceptual model that identifies the factors that link the adoption and use of SAKIP in ILG with ILGs' organisational learning capabilities. The significance and contribution of the research are also observed.

The next chapter discusses the literature related to the use of SAKIP and ILGs' organisational learning capabilities.

Chapter 2: **Literature Review**

2.1   Introduction

The present study examines the ILGs ability to utilise a centralised MCS and the organisational learning capabilities derived from the introduction of the MCS SAKIP. This literature review will focus on three central themes. These themes are the Indonesian bureaucratic system and performance management system SAKIP with an emphasis on ILG, MCSs and organisational learning (OL). These are all aligned with the research schema introduced in Chapter One and shown in Figure 1.1. With this in mind, prior Indonesian research is emphasised to highlight gaps in prior research while reputable studies from an international spectrum provide the opportunity to critically evaluate and highlight the relevance and contribution of the present study.   Further, studies within the public sector are elaborated as the present study is undertaken within this sector.

This chapter commences with a description of the Indonesian public sector environment to set the scene and provide background information into the history of the introduction and adoption of SAKIP in Indonesia.   This is followed by a detailed overview of research into MCSs. Finally OL research is examined with a view to illustrating the contribution of OL to problem resolution and ongoing organisational development and improvement within a local government framework.

2.2   Background to Indonesian Public Sector and Accountability

Indonesia is the fourth most populous country in the world and the largest island archipelago in the world with 922 out of 13,466 islands inhabited by a total of 258.3 million people. The island of Java accommodates 60% of the Indonesian population and is one of the most densely populated places in the world. Despite possessing the world's third largest area of tropical forest and abundant natural resources, Indonesia still struggles with corruption, poverty, unemployment, inadequate infrastructure and inequitable resource distribution among its regions (World Factbook, 2017). Through more effective government infrastructure, and enhancements in policy and procedures and areas of accountability across the different levels of government, Indonesia is attempting to improve outcomes for citizens.

Accountability in the public sector can be defined as efforts to maintain public trust by being answerable for behaviour and decisions made (Quinn and Schlenker, 2002; B. Romzek, 1987; B. S. Romzek, 2000). By objectively measuring the performance of government actions, accountability is expected to provide assurance to citizens that any individual given the mandate to act on their behalf is doing their best to carry out the tasks (Hughes, 2003).

Prior to 1999, Indonesia operated under a centralised government system for almost 32 years. Indonesia's government administrative structure was divided into the central government, provincial government, cities and districts. Provinces, cities and districts were considered as part of the larger group called local governments, and they were led by a governor (Gubernur), a mayor (Walikota), and a regent (Bupati) respectively.

The local parliament was less powerful than the heads of the local governments. Members of local parliament represented their political party than the citizens because they were not directly elected by popular vote. The citizens voted for a political party and the head of the political party appointed someone from the political party to be the member of a parliament. There were only three political parties i.e. PPP, Golkar and PDIP. Golkar always won an overwhelming majority votes in each election. Under Soeharto, Golkar was the government sponsored political party and civil servants were affiliated to and obligated to vote the party (Hadiz, 2004).

The central government had control of the local governments' budget and financial decisions. During this period, all local government leaders were the President's subordinate. Mayors and regents were appointed by a governor who was appointed by the President. Therefore, the mayors and regents were only accountable to their governor and governors were accountable to the President. Under this system, local governments were considered as one of the many tools used by the President to implement his programs.

The Asian financial crisis started in Thailand in July 1997. The crisis started with widened current account deficit and followed by the devaluation of Thai baht that led to the loss in investor confidence, rapid foreign private capital outflows and striking economic downturns (ADB, 2017). The crisis spread to the neighbouring countries in the region, including Indonesia, Malaysia and the Republic of Korea, and its impact

propagated throughout the global economy. In general, the crisis was caused by a combination of banking crisis and the affected countries' weak attention to good governance especially in establishing adequate legal framework to guide dynamic economic transactions. Weak and poorly enforced regulations had permitted excessive risk taking practices, rent-seeking behaviours and increased corruption.

As one of the worst crisis-affected countries, Indonesia requested assistance from International Monetary Fund (IMF) to acquire financial support and to restore confidence. IMF took a lead in coordinating the multilateral assistance to stabilise the spreading crisis. Other major donors that involved in providing the financial support were the World Bank and the Asian Development Bank (ADB). The main purposes of the financial assistance were to provide liquidity for crisis-affected countries, encourage structural reforms to restore confidence, and to repair the country's relationship with its external creditors.

IMF required recipient countries to implement tighter monetary policy and conducted substantial structural reform such as banking system reform, improving corporate transparency and removing barriers to trade and monopolies. The IMF-led international assistance implemented broad strategies for dealing with the financial sector crisis that were similar across crisis countries. The strategies involved: (1) providing a credible macroeconomic stabilisation program to restore depositor and creditor confidence; (2) allowing the central banks in crisis countries to provide liquidity to financial institutions that were subject to withdrawals both from domestic depositors and creditors; (3) introducing blanket guarantees that protect depositors and creditors claim; (4) stabilising foreign funding and reversing the capital outflows through temporary capital control measures and foreign debt rescheduling; and (5) immediate closing of insolvent financial institutions (ADB, 2017; IMF, 1999). Crisis countries, such as Indonesia, Thailand, The Republic of Korea, or Malaysia adopted the strategies with some adjustment to meet with their national circumstances and preferences. While the IMF took the lead in designing the overall restructuring program, other international donors also took charge in specific program implementation. The ADB viewed good governance was a central theme of the government reform in Indonesia. Poor and weak governance caused the loss of trust of the community in their public institutions and it was exposed during the crisis. As part of implementing the governance reform agenda,

the World Bank, United Nations Development Programme, ADB, Indonesia's government agencies and civil societies launched the Partnership to Support Governance Reforms in Indonesia in April 2000 that intended to coordinate donor activities to formulate and promote the governance reform agenda (ADB, 2000).

Following the financial and political crisis that occurred in 1998, Indonesia embraced the concept of the NPM to reform the public sector (Harun and Robinson, 2010). The reform aimed for greater transparency in government transactions and clearer accountability to the public. This was achieved by incorporating various performance reports (Rhodes et al., 2012). This represented a major shift from a centralised to a decentralised government system. All governors, mayors, regents, and members of the local parliament are directly elected by popular vote. Mayors and regents are no longer under a governor. They are all considered equal and responsible mainly to their local parliament. Mayors and regents are required to seek their local parliaments' approval for local government regulation and budget proposals.

As outlined in Figure 2.1, Indonesia's government administrative structure is divided into three main areas. These include: the central government; provincial government; and local government that includes cities and districts. In Indonesia, each level of government has two branches of government: (1) the executive branch (i.e. elected mayors and regents) and (2) the legislative branch to oversee the conduct of executives. The central government administration is located in Jakarta, the capital of Indonesia. Provinces, cities and districts are considered as part of the larger group called local governments, and they are led by a governor (Gubernur), a mayor (Walikota), and a regent (Bupati) respectively.
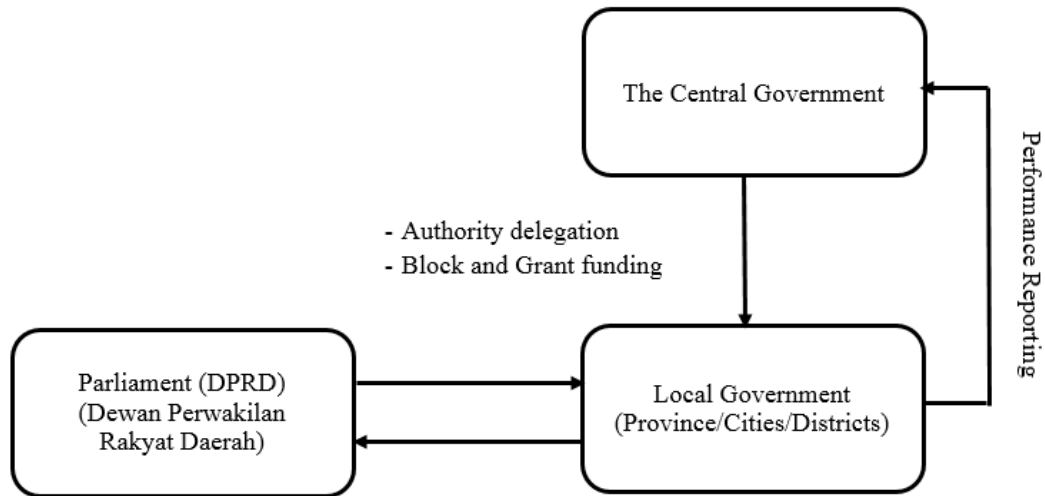
Figure 2.1: Indonesian government administrative structure

Following decentralisation, the central government transferred functions to local governments. For example local governments became responsible to provide public services such as health, education and building infrastructure. The central government retained functions related to national security, defence, foreign affairs, religious affairs and fiscal affairs. In addition to providing services to their local constituent, governors have an additional role as the coordinator for certain central government's programs that require collaboration from more than one municipality or district.

The shift to a decentralised system created a block funding system from the central government to local governments and has facilitated more autonomous decision making related to resource distribution. However, the freedom to manage their localities increased the demands from the central government to improve transparency and accountability through performance report requirements. Local governments are required to submit performance information to their local parliament. This performance system is termed Sistem Akuntabilitas Kinerja Pemerintah (SAKIP) and is outlined in the next section.

2.2.1 Development of SAKIP as a performance reporting and measurement system

As detailed earlier the 1998 Asian financial crisis gave rise to government reforms in Indonesia, comprising the adoption of more democratic principles, "underpinned by a

process of decentralisation as the centrepiece of a wide-ranging programme of institutional reforms" (Harris and Foresti, 2010, p. 1). Subsequently, the government issued a series of laws with an emphasis on reforming a legal framework for the management and accountability of public funds. At a localised level this related to budgeting and performance measurement. Some of the laws specified general principles and authorities for the management and accountability of public funds. This has now evolved into a performance reporting and management system termed SAKIP. An outline of the development of the SAKIP system and regulation updates and changes can be reviewed in the timeline in Table 2.1.

In 1999, the President issued Presidential Instruction[3] PI 7/1999 which required all tiers of government to submit an annual accountability and performance report. This report was termed LAKIP[4]. The regulation required all government agencies to prepare an annual performance report in the hope that ultimately it would promote efficiency, effectiveness, transparency, and accountability within the Indonesian public sector. During LAKIP's introduction and deployment stage, the President issued additional regulations to emphasise the role of LAKIP within the government control system, as well as to assist agencies in preparing and using LAKIP as a monitoring and evaluation tool. The central agency that leads and administers the implementation of LAKIP is the MSAEBR[5]. The MSAEBR's role is to publish additional guidelines for agencies in preparing their LAKIP as well as to evaluate and grade[6] every submitted LAKIP report.

The intention of regulation PI 7/1999 was to compel all local and central government agencies to report their performance to the President in a hierarchical manner (Solikin, 2006). Every department of every government agency was required to prepare and submit the LAKIP report to the head of the agency. Later, the head of the agencies prepared and submitted their consolidated LAKIP to the MSAEBR, who would compile them and submit the final fully consolidated LAKIP to the President. Despite calling for all government agencies to implement the policy, PI 7/1999 failed to clearly define any form of performance measurement system needed to produce the LAKIP report. There was only a further indication that another Presidential Instruction would be provided to

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[3] Instruksi Presiden = PI
[4] Laporan Akuntabilitas Kinerja Pemerintah = LAKIP
[5] Minister of State Apparatus Empowerment and Bureaucracy Reform = MSAEBR
[6] Before the concept of SAKIP was introduced, the MSAEBR assessed the performance of all agencies through LAKIP.

regulate and describe the required system. Consequently, the level of adoption and compliance to the requirements of LAKIP were low and information that was reported lacked consistency that made consolidation difficult and relevance negligible.

In 1999, a central government agency, the Public Administration Agency (PAA), was appointed to provide the necessary guidelines to improve the interpretation of the LAKIP regulation. The PAA issued a guideline in decree number 589/IX/6/Y/1999 in 1999 that set the framework for preparing LAKIP in order to clarify PI 7/1999, and to provide an operational explanation for government agencies on how to report their performance. In 2003, the guideline was updated in decree number 239/IX/6/8/2003 All government agencies were required to develop a performance measurement and accountability system, namely SAKIP and to integrate performance measurement into their management process and to disclose relevant information in the required format in their required report namely, LAKIP.

The appendix section of the PAA decree, 239/IX/6/8/2003, included detailed instructions regarding guidelines to develop the SAKIP system. Government agencies were required to establish SAKIP prior to producing their LAKIP report. Therefore, it was made clear that LAKIP was a performance report that was part of the SAKIP system. Agencies were also required to establish a mission, a vision, strategic objectives, and key performance indicators (KPIs) as part of the SAKIP system. However, the decree did not explain the linkage between the SAKIP system and the existing financial and operational systems because the main focus of the decree was to produce a LAKIP report and submit it at the end of the budget year. Solikin (2006) noted that the implementation of PI 7/1999 and PAA 239/IX/6/8/2003 still focused on the accountability reporting process rather than on a performance improvement strategy. As a result, there was still ambiguity among government agencies regarding the intention of SAKIP and LAKIP.

Table 2.1: Timeline and description of LAKIP and SAKIP regulations and guidelines

Year introduced	Name of regulation or guideline	Description	Date annulled or updated?
1999	PI 7/ 1999 Performance Accountability Reporting (LAKIP)	Required all tiers of government to submit an annual performance accountability report. Mentioned the need to set up a performance measurement system	Revoked in 2014 Replaced with PR 29/2014
	PAA Decree No. 589/IX/6/1999 Guideline in developing LAKIP	Guideline in Preparing Performance Accountability Reporting LAKIP.	Revoked in 2003 Replaced with PAA 239
2003	PAA Decree No. 239/IX/6/8/2003 Revision on Guideline in developing LAKIP	Guidelines to develop the SAKIP system and for preparing the LAKIP. Information on strategic planning, and development of KPIs.	Revoked in 2014
2004	PI 5/2004 Corruption Eradication Acceleration Initiative	Performance agreement requirement.	
	Law No.25/2004 National Development Planning Law	Requires all agencies to prepare 5 year strategic plans and annual plan.	
2006	GR 8/2006 Government Financial and Performance Reporting	Required the government agencies to prepare, audit and submit the financial and performance reports.	
2007	MSAEBR.9/2007	General Guideline on developing KPI	Updated in 2008
2008	GR 8/2008 Procedures in Developing, Controlling and Evaluating the implementation of Local Development Planning	Guidelines to monitoring and evaluation of the regional development plan.	
	MSAEBR.20/2008	General Guideline on developing KPI	Updated in 2010
2010	MOHA 54/2010 on Guidelines to implement GR 8/2008	Require local governments to align the medium term plan with the strategic plan.	
	MSAEBR 29/2010	Revised Guideline on developing KPI	
2014	PR 29/ 2014 Performance Accountability System (SAKIP)	SAKIP Guidelines	
	MSAEBR 53/2014	Technical Guideline for developing performance agreements, performance reporting and reviewing performance report.	
2015	MSAEBR 12/2015	Guidelines to review the implementation of SAKIP	

2.2.2   Integrating SAKIP with other control systems

In addition to developing a performance measurement framework, the Indonesian government also engaged in comprehensive financial reform to deal with changes from a centralised into a decentralised system. Three major acts were issued and became the foundation of the financial accountability reform in the public sector. These acts were (1) Law 17/ 2003 on state finances that included the planning and budgeting system, (2) Law 1/2004 on state treasury, and (3) Law 15/2004 on state financial management audit. The acts marked the transformation from a focus on administration to a system that centred on the financial management. Prior to the introduction of these acts, the broad Indonesian financial system allocated resources based on a traditional line item budgeting system. The new regulations introduced performance-based budgeting that linked the funding with output and/or outcome indicators (KPIs) related to an activity or program. In 2005, the government also issued Government Regulation GR 24/2005 on Government Accounting Standards. This required all government agencies to change from the cash basis to the modified accrual basis accounting system. The regulation was later revised by GR 71/2010 on Government Accounting Standards that required all government agencies to gradually implement the full accrual basis by 2015.

In order to integrate SAKIP with planning, budgeting, treasury, and government accounting systems, the government issued Government Regulation GR 8/2006 related to Financial and Performance Reporting for Government Agencies. The aim of the regulation was to have more transparent an integrated financial and performance information in combined government agency reports (Mimba, Helden, and Tillema, 2007). Despite the intention to bridge government financial and performance reports, GR 8/2006 placed more attention on the establishment of financial reports. The regulation required audits to be conducted on financial reports to provide a certain level of assurance. However, no audit was required on performance reports. Moreover, the regulation also allowed the MOF[7] to apply administrative or financial penalties for government agencies that fail to follow the regulation. The MOF could delay the transfer of block grants to ILGs for late submission or failing to submit financial reports. On the other hand, there was no penalty applied for failing to provide a performance report. Jurnali and Siti-Nabiha (2015a) linked the lack of punishment to

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[7]   Ministry of Finance = MOF

provide a performance report to the ILGs' lack of motivation to perform well.

GR 8/2006 clarified SAKIP as a performance measurement system connected with the planning system and government accounting system. ILGs are required to prepare and provide both financial and performance reports to local parliament, and submit only a performance report to the MSAEBR. However, the performance report format provided in the regulation was significantly different to the one in previous regulations, such as in the guideline PAA 239/IX/6/8/2003. This difference meant public agencies had to prepare two different performance reports with similar content. It also created ambiguities regarding the use of terminology. The term SAKIP (the system) and LAKIP (the report) were used interchangeably by government agencies.

The government intention to issue another regulation to further explain the implementation of SAKIP and how SAKIP would integrate with the planning, budgeting, treasury and accounting system was also highlighted in GR 8/2006. Integration efforts prior to the introduction of the new specific regulation about SAKIP are also demonstrated with GR 8/2008 and the MOHA[8] Regulation 54/2010 that required local governments to align the medium term plan with the strategic plan.

SAKIP's position as the Indonesian Government's control system became more important when the President launched The Bureaucracy Reform Initiative in 2010 (Dwiyanto, 2011). The aim was to implement a more transparent and ethical government, provide fast and responsive public services, increase government programs' visibility, and modernize all agencies' management systems. The initiative used the implementation of SAKIP in government agencies as one of the reform milestones. The number of agencies that adopted SAKIP had also grown markedly. In 2011, there were 290 out of 612 (47%) agencies that failed to fulfil the mandate to submit LAKIP to the MSAEBR. All of these were ILG, comprising 3 provinces and 287 municipalities (Kompas, 2012). However in 2014, all ILGs claimed that they had implemented the SAKIP system and submitted the LAKIP report to the MSAEBR.

After 15 years of LAKIP implementation, the government finally issued PR[9] 29/2014 on the 21st of April 2014. The Presidential Regulation comprehensively explained the

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[8]   Ministry of Home Affairs
[9]   Presidential Regulation

SAKIP system for government agencies as required by the previous regulations. The Presidential Regulation also replaced and annulled PI 7/1999 and PAA 239/IX/6/8/2003, and changed the LAKIP terminology to a performance report. The regulation clearly uses the term 'SAKIP' as the management control system for government agencies and provides a comprehensive description about SAKIP as a system that plans, measures and reports government entities' performance. The integration of SAKIP as the performance measurement system with existing accounting and treasury systems was also clarified.

PR 29/2014 requires agencies to describe their mission and vision, to prepare their strategic objectives and key performance indicators (KPIs), and to integrate KPIs with their annual budget. In the following year, the MSAEBR issued regulation MSAEBR 12/2015 that clearly provided guidelines for the MSAEBR and the government internal auditor (Badan Pemeriksa Keuangan dan Pembangunan = BPKP) to review the implementation of SAKIP (the system) in government agencies. These two regulations removed the ambiguity by emphasizing the position of the performance report as a part of the SAKIP system.

The absence of a clear definition and complete description regarding the centralistic management control system resulted in the inconsistent use of the terms 'LAKIP' and 'SAKIP'. Prior to the issuance of PR 29/2014, the LAKIP and SAKIP acronyms were used interchangeably among government agencies during the implementation process and often they were used to refer to the same items. For example, when the MSAEBR evaluated the agencies' LAKIP report, they focused not only on the content of the report, but also on the quality of the management system instruments utilised to produce the report. The MSAEBR reviewed the quality of the KPIs used, the alignment between mission, vision and objectives, and the KPI measurement mechanism.

The inconsistent use of the acronyms is also reflected in some of the previous literature. Akbar et al. (2012) and Jurnali and Siti-Nabiha (2015a) only mentioned LAKIP when they referred to government performance accountability reporting and fail to mention SAKIP as the system that produced the report. In his research on the Indonesian Ministry of Finance's management control system, Budiarso (2014) viewed SAKIP as a different system than the balanced scorecard system used by the Indonesian Ministry of

Finance.

The prolonged gap in the regulations may have created confusion among ILGs; however, it did not prevent them from participating in SAKIP in order to gain legitimacy. Md. Mostaque and Zahirul (2002) argued that an organisation considers the interplay among political position, and institutional and technical environment prior to adopting a new system. The regulation gap in the SAKIP system may also have had an impact on the accuracy, validity and quality of performance indicators. Following the direction provided by PR 29/2014, this thesis will use SAKIP as the terminology when the management control system in ILGs is discussed.

2.2.3   Annual assessment on SAKIP implementation

The last two stages of the SAKIP cycle are the reporting and assessment phases. In the reporting phase, all government agencies are required to prepare a performance report within two months after the end of the financial year 31 December (Akbar, Pilcher, and Perrin, 2015; Jurnali and Siti-Nabiha, 2013)(Akbar et al., 2015; Jurnalis & Nabiha, 2013). In the assessment phase, Minister of State Apparatus Empowerment and Bureaucracy Reform (MSAEBR) and Government Internal Auditor (BPKP) are two government agencies that conduct annual review on the implementation of SAKIP in all government agencies. Based on the MSAEBR 12/2015, the SAKIP implementation is assessed based on five major components of the performance measurement system, with each given an importance rating:

    (1)   performance planning (30 per cent);
    (2)   performance measurement (25 per cent);
    (3)   performance reporting (15 per cent);
    (4)   performance evaluation (10 per cent); and
    (5)   performance achievement (20 per cent)

The first component is the performance planning score, which contributes 30% of the total score. The evaluation process for this component is mainly the reviewing of information in strategic and annual plan documents. Under the SAKIP system, a strategic plan is a five-year planning document that should have an ILG's vision, mission statement, and a set of key elements that are objectives, goals, programs, and activities. The second component is the performance measurement score, which contributes 25% of the total score. The evaluation process for this component is mainly

reviewing the process of measuring performance in an ILG. The third component is the performance reporting score, which contributes 15% of the total score. The evaluation process for this component is mainly reviewing the process of reporting on performance in ILGs. The fourth component is the internal evaluation assessment, which contributes 10% of the total score. The evaluation process for this component is mainly reviewing the performance evaluation process in an ILG. The final component is the performance achievement score, which contributes 20% of the total score. The evaluation process for this component is mainly reviewing the performance of the ILG's outcome and output performance indicators and by assessing the reliability of the performance information.[10]

During the evaluation process, the assessors from MSAEBR or BPKP visit and assess the SAKIP implementation in the agencies. The assessment process includes collecting SAKIP-related documents, sending out questionnaires, conducting interviews and observing the level of SAKIP implementation.

The evaluation analyses the SAKIP system being used and provides recommendations for improvement. The evaluation focuses on the agency's abilities in (MSAEBR 12/2015, p. 11):

(1)   planning strategic performance;
(2)   developing a performance information collection system;
(3)   disclosing performance achievement;
(4)   monitoring and evaluating strategic performance achievement;
(5)   connecting elements of performance planning with budgeting and budget executions;
(6)   SAKIP's implementation in the departmental level of an agency; and
(7)   setting up action plans to follow up the assessment's recommendations.

Table 2.2: SAKIP evaluation scoring system

Score	Rating	Description
91-100	AA	Excellent
81-90	A	Great
71-80	BB	Very Good
61-70	B	Good
51-60	CC	Fair
31-50	C	Bad
0-30	D	Very Bad

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[10] The detail of the SAKIP scoring elements is further discussed in Chapter 6.

Following a comprehensive evaluation process, each performance report is given a score from 0 to 100. The score is then grouped into the seven rating categories shown in Table 2.2. At the end of the evaluation phase, the MSAEBR creates a list of all agencies and publishes[11] a list of the best or the worst in SAKIP performance. The results of the assessment of the 2016 SAKIP implementation showed that ILGs' ability to use LAKIP is not improving. The majority of ILGs still fell into the C category or were lower than 50 (Jajeli, 2017). The results were relatively similar to the research on ILGs accountability in 2011 by Akbar et al. (2015). The results also indicated major institutional factors that impede the majority of ILGs from fully implementing SAKIP, despite a series of guidelines issued by central government agencies.

In their study on performance measurement regimes in the US Government, Mahler and Posner (2014) noted the assumption behind such evaluation is that agencies will naturally learn from observing the connection between budget and strategic plans, and from providing the general public with the evaluation results. They argued that the "shame and fame" mechanism that follows after a coercive evaluation may discourage government agencies from learning and change.

2.2.4   Prior research in ILG on performance measurement systems

A number of prior studies have been conducted within the Indonesia local government that have emphasised the usefulness of performance measurement systems. A summary of selected studies is presented in Tables 2.3 to 2.5. Studies have been found to examine a number of variables such as culture, commitment, accountability, corruption, and fraud (Jurnali and Siti-Nabiha, 2015a; Kasim, 2013; Manafe and Akbar, 2014; Primarisanti and Akbar, 2015; Surjandari and Martaningtyas, 2015). More recently exploratory research on how performance measurement systems influence organisational learning has emerged (Ahyaruddin and Akbar, 2016; Wijaya and Akbar, 2013). Organisational learning studies are elaborated later under section 2.4. An examination of the literature has also shown that a variety of theories have been applied when examining performance measurement systems. The present study will apply institutional theory. This is consistent with studies by (Ahyaruddin and Akbar, 2016; Akbar, 2011; Akbar et al., 2012; Akbar et al., 2015; Harun, Van Peursem, and Eggleton,

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[11]   In the newspaper and other media.

2012; Jurnali and Siti-Nabiha, 2015a); Manafe and Akbar (2014); (Mimba et al., 2007; Primarisanti and Akbar, 2015; Wijaya and Akbar, 2013). Institutional theory has been found to be the most relevant in public sector research given the pressures imposed by the central governments. A thorough examination of prior research and the relevance of institution theory is provided in Chapter Three that explores the theoretical framework of the present study. The following section emphasises prior research that has examined external and internal organisational factors that affect the use of performance information in ILGs.

2.2.4.1 External and internal factors antecedents to the use of performance information and to organisational performance

The majority of previous studies have identified external and internal organisational factors that affect the use of performance information in Indonesia public sector. Table 2.3 summarizes past ILG studies, and the following section examines the literature on external and internal factors affecting the use of performance measurement systems.

Table 2.3: Summary of ILG studies that have examined external and internal factors affecting the use of performance measurement systems.

Author(s)	Methods	Key Findings
Mimba et al. (2007)	Literature review	Public sector organisations in developing countries face disequilibrium between the demand for and supply of performance information. The reforms lead to an increasing demand for performance information but it is not always followed by a sufficient supply of performance information because of the low-institutional capacity and the high level of corruption within the organisations.
Akbar et al. (2012)	Survey 457 ILGs officers	The paper investigated relationships between technical and organisational factors and the development and use of performance indicators and accountability practices. The study found that ILGs developed performance indicators to fulfil regulatory requirements and not for organisational effective and efficient purposes. Coercive and normative pressures play roles in the development performance measures.
Harun, An, and Kahar (2013)	Literature review	The success of the implementation of NPM and accrual accounting reform in ILGs is hampered due to the lack of co-ordination between government at the central and local levels and the central government's reluctance to modernize the human resource management system used in local government.
Jurnali and Siti-Nabiha (2013)	Regulation and guideline reviews	The paper reviewed the regulation, guidelines and examined the issues and consequences of implementing a performance measurement system in ILGs. The PMS regulation was found to be quite comprehensive except there were no punishment and reward system at an organisational or individual level. In order to improve the quality of PMS implementation, the

		central government should regulate the coordination between ministries, provide the monitoring and supervisory system, and improve the local staff's capacity.
Kasim (2013)	Discussion paper	The current government's bureaucratic problems in Indonesia are multi-dimensional in nature. The paper identifies the need of more comprehensive strategies including four major areas that are: political leadership, public policy harmonization (including rules and regulations), the application of a merit system in all government agencies, and anti-corruption initiatives.
Mimba, Helden, and Tillema (2013)	Interview 20 managers from 2 ILGs	When facing two opposing forces i.e. corruptions and public sector reforms, ILGs managers focus more on fulfilling the formal requirements regarding the format of these reports and on their timely submission than on their contents, which are all symptoms of a symbolic rather than functional use of performance information.
McLeod and Harun (2014)	Interview 24 ILGs senior officers and local parliament members	The success of implementing accrual accounting as part of public sector reform in Indonesia is hindered by lack of staff with adequate accounting skills and the use cash-based accounting reports alongside the accrual-accounting. As a consequence, the level of compliance with the new accounting standard are low, little use has been made of accrual-based reports for decision making purposes, or for holding governments to account for their financial performance.
Author(s)	**Methods**	**Key Findings**
Manafe and Akbar (2014)	Survey 201/ Interviewed 3 ILGs	The conflict in the accountability requirement has significant impact on the work context with negative perception at different levels, but does not have any significant impact on the work performance of the accountability actors.
Afiah and Azwari (2015)	ILG/Path Analysis	Through financial reporting quality, internal control gives better results, and has significant and positive influence on good governance.
Harun, Van-Peursem, and Eggleton (2015)	Interview 29 Indonesian government officials	The accounting reform has still not enabled local citizens to voice their concerns in a free and open manner. There is limited opportunity to question the elements of these reforms, and the study has also found that centralizing forces remain to serve vested interests. A conflicting set of goals, priorities, deadlines, and accountabilities from external parties including central governments have resulted in confusion amongst members of our LG. Through a combination of confusion and resistance, incompetence and self-service, local participants had no more real basis to express their "voice" over these events than they had before.
Jurnali and Siti-Nabiha (2015b)	Explanatory case study 1 ILG	A successful PMS implementation in a ILG depends on directions and supervisory monitoring from senior management and adequate staff training regarding PMS. The Mayor played a major role in institutionalising the PMS.
Jurnali and Siti-Nabiha (2015a)	Literature review	PMS regulation is quite comprehensive, except it lacks a punishment and reward system. Some evidence demonstrates implementation issues such as lack of compliance, lack of integration between planning and budgeting, and inaccurate indicators and data reporting
Surjandari and Martaningtyas (2015)	Survey 48 central government	Performance incentive does not have any impact on fraud activities. This is because the incentive is given based on an employee's grade and not on an employee's performance.
Primarisanti and Akbar (2015)	Survey 214 ILGs officers Interviewed 5	(1) Training, incentives and authority in decision-making had significant impacts on the development of the measurement of the performance, performance accountability and the use of the

	respondents	performance information; (2) Top management commitment had a positive impact on performance accountability and the use of performance information; (3) Innovation had a positive impact on the development of performance measurement systems and the use of performance information; (4) Information system limitations had a negative impact on performance accountability and the use of performance information.
Ahyaruddin and Akbar (2016)	Survey 137 ILGs officers	(1) Management commitment had a positive association with accountability and organisational performance; (2) There is a positive association between the legislative mandate and accountability; (3) No significant association between the use of PMS with performance; (4) Accountability is not associated with organisational performance.
Author(s)	**Methods**	**Key Findings**
Fahmi, Prawira, Hudalah, and Firman (2016)	Interview	Leadership plays a vital role in collaborative planning processes by overcoming conflicts, imagining vision, structuring knowledge and resources, nurturing trust, persuading stakeholders to collaboratively perform tasks and build a learning framework.
Hayat (2016)	Survey 217 public sector managers	Participation in budgeting is the central variable in shaping organisational commitment, while organisational commitment turns out to be the most dominant variable affecting managerial performance. Commitment becomes the bridge of managerial performance achievement when distributive justice has no significant effect on managerial performance
Simon, Mas'Ud, Mahfudnurnajamuddin, and Su'Un (2016)	Survey 189 central agencies	(1) The competence of the apparatus and internal control systems has a positive and significant effect on good governance. (2) The competence of the apparatus has a positive and significant effect on the quality of financial statement information. (3) Internal control and good governance has a negative and insignificant effect on the quality of financial reporting information.
Kewo (2017)	Survey 345 staff	Internal control and managerial performance have a significant influence on Financial Accountability

External factor - Regulation

Regulations have been the main external factor impacting the use of a performance measurement system as evidenced by the demands of Indonesian government agencies to adopt and use performance information. Manafe and Akbar (2014), surveyed 201 ILG officers in East Nusa Tenggara and examined the impact of the external and internal accountability requirements on the perceived workloads and work performance. Central government was described as the external party with the capability to regulate

ILGs. One of the central government regulations included in the study was the requirement to prepare LAKIP (the report). The study argued that ILGs have to implement the regulation despite their lack of skills or knowledge about it. Findings revealed that the requirement to comply with the central government agencies has impacted the ILG officials' perceived workload and work performance.

In their study examining the impact of the use of performance measurement systems on organisational accountability and performance, Ahyaruddin and Akbar (2016) also revealed that an external factor such as the requirement to prepare LAKIP is positively associated with the accountability in ILGs. Accountability variable was referred to: (1) formal reporting requirement from subordinates to their superiors and (2) ILG's reporting requirement to bodies outside the organisation, such as the MSAEBR.

External factor - Coordination within central government agencies

Harun et al. (2013) also argued that the implementation of accrual accounting reform in ILGs is hampered by the inconsistent accounting regulations and the lack of coordination between central and local governments. Following up their own research, Harun et al. (2015) found that the conflicting goals and priorities from central government agencies caused confusion and triggered resistance among ILGs.

Kasim (2013) further identified the need to have a more consistent and comprehensive approach to improve the impact of bureaucratic reform in the Indonesian government. This included four major areas; (1) political leadership; (2) public policy harmonization (including rules and regulations); (3) the application of a merit system in all government agencies; (4) and an anti-corruption policy. He argued that these four areas were the main causes of government reform failure in Indonesia.

External factor - Reward and punishment

Jurnali and Siti-Nabiha (2013) noted that the lack of punishment and reward system for the current performance measurement system discouraged compliance to the new system by ILGs and therefore did not encourage improved performance. Similar to Kasim (2013), Jurnali and Siti-Nabiha (2015a) proposed a reward and penalty mechanism to improve the implementation of SAKIP. However, later research found some contradictory results to these suggestions.

Following a survey of 48 central government agencies, Surjandari and Martaningtyas (2015), found that additional financial reward, such as individual and performance incentives, did not have any impact on fraud activities. Reasons provided were related to the incentives being awarded based on an employees' rank and not on their performance. This finding provides some support that for a merit system to work effectively and reduce fraud activities then alternatives need to be explored to determine those measures that are most appropriate within a government setting.

Internal factor - Management commitment

In their study on the implementation of performance measurement system in ILGs, Akbar et al. (2012) found that the development of performance indicators was affected by management commitment to support the implementation of the new system, legislative requirements, and technical knowledge regarding the measurability of the performance indicators. They also found that the use of performance indicators was affected by the extent of technical knowledge and management commitment. Institutional theory was used to explain the relationship between observed variables. The study found the strongest pressure came from coercive isomorphism in the form of regulations from the central government. Normative isomorphism came from formal training and interactions with professional groups.

Ahyaruddin and Akbar (2016) also found the internal factor, management commitment, to use performance information is substantially associated with organisational performance. However, the study did not find any significant association between the operational and exploratory use of a performance report such as LAKIP and organisational performance[12]. Further, no association between accountability and organisational performance was found.

Primarisanti and Akbar (2015) also found the level of management commitment influences the use of performance information and LAKIP in ILGs. For example, top management commitment was found to have positive impact on performance

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[12] The organisational performance variable was measured by using a five-point Likert score. Respondents were asked to indicate a score of their unit on every performance dimension.

accountability and the use of performance information. In addition, training, incentives and authority in decision-making were found to impact the development of performance indicators and the use of the performance information itself.

Jurnali and Siti-Nabiha (2015b) in their case study found the importance of management commitment to improve ILGs' participation in implementing SAKIP. The Mayor played an active role in developing the new system, improving the SAKIP knowledge of his staff, and incorporating the local values into the new system. The crucial role of leadership from the local leaders was also identified by Fahmi et al. (2016) in his study on the collaborative planning in ILGs. Hayat (2016) in his research found that the level of managers' involvement in the budget drafting process and the percentage of budget approved are associated with the managers' commitment to the organisation. Managers' commitment became the major factor for managerial performance. Managerial performance is measured by asking the opinion of the managers' supervisors.

Internal factor - Innovation

Primarisanti and Akbar (2015) also found that innovation had a positive impact, while limitations of information systems were found to have a negative impact on the development of performance measurement systems and the use of performance information. The study also identified some of the difficulties that ILGs have encountered in developing the performance measurement system, such as data availability and accuracy. However, the reasons behind such difficulties and their impact on the use of performance information were not explored.

Internal factors - Organisational capacity, resources and human resource skills

Mimba et al. (2007) in their research argued that the lack of ILGs' institutional capacity to constantly operate and improve their performance, a high level of corruption and insufficient resources were barriers to provide adequate performance information. Later, she found that the lack of institutional capacity in ILGs has led the managers to focus on submitting LAKIP to ILGs' leaders on time and in the correct format, which indicated a symbolic use of performance information (Mimba et al., 2013). In her research, she positioned an ILG leader as the dominant stakeholder and not as part of the ILG. Other ILGs' stakeholders were members of the local parliament and the central government

auditor. By viewing ILGs' leaders as a separate entity from ILGs' managers, Mimba et al. (2013) viewed the different use of performance indicators between ILGs' leaders and managers as the evident symbolic use of LAKIP. Further, Mimba et al. (2013) did not include other important central agencies such as the MSAEBR and BPKP in her discussion. As a result, she only viewed that the main obstacle for the design of high-quality performance measurement systems came from the lack of ILGs institutional capacity.

The lack of institutional capacity has also been found in a study that examined the implementation of accrual accounting in ILGs. McLeod and Harun (2014) found the lack of staff with adequate skills and the parallel use of the old and new system discouraged ILGs from fully complying with the new accounting system and to use it for management purpose. On the other hand, ILGs have to go through a very difficult process to recruit skilled staff from different government agencies. The problem is exacerbated by the lack of coordination between MOHA, MOF, and BPKP, the central agencies in charge of the implementation of the new accounting system.

Similar to McLeod and Harun (2014), Simon et al. (2016) found that the transparency and quality of information in the financial report is notably affected by the knowledge and skills of the ILG's staff. The establishment of an internal control system also improved the financial information transparency and accountability. Kewo (2017) also found a positive impact of internal control on the accountability.

Internal factor - Data accuracy and the integration of different systems

Findings of a thorough literature review, Jurnali and Siti-Nabiha (2015a) acknowledged that despite the highly regulated environment (including SAKIP), there was a lack of data accuracy, a lack of compliance, and lack of integration between planning and budgeting during the implementation of SAKIP.

2.3 Management Control System (MCS)

The term "management control" was first used by Robert Anthony in 1965 (Anthony, 1968). He defined management control as "the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organisation's objectives" (Anthony, 1968, p. 17). In 2004, Anthony reemphasised

a MCS as the process to influence other members of the organisation to implement organisation strategies (Anthony and Govindarajan, 2007). Simons (1995, p. 5) defined MCSs as "formal, information-based routines and procedures managers use to maintain or alter patterns in organisational activities". Similar to Simons (1995), Chenhall and Langfield-Smith (1998) defined MCSs as practices and formal procedures used by managers to maintain and align the organisation's members' behaviour within the organisation's activities. MCSs can be described as formal tools, procedures and techniques used by managers to acquire and provide information that help them to make decisions that add value to customers and shareholders (Langfield-Smith, Thorne, Smith, and Hilton, 2015; Nuhu et al., 2017; Wijethilake, Munir, and Appuhami, 2016). Malmi and Brown (2008, p. 290) defined MCSs as "all the devices and systems managers use to ensure that the behaviours and decisions of their employees are consistent with the organisation's objectives and strategies".

The purpose of the MCS is to enable organisations to monitor their performance by providing information that will assist managers in planning, decision-making, and evaluation (Agyemang and Broadbent, 2015; Henri, 2006; Widener, 2007). The central focus of a MCS is strategy implementation (Anthony and Govindarajan, 2007) and to guide managers to reach organisational objectives (Marginson, 2002). Accounting-based controls of planning, monitoring activities, and measuring performance are an important part of a MCS (Langfield-Smith, 2007), however, a MCS also provides a coordinating role. For example, harmonising the activities of different sections within an organisation, communicating and evaluating information, deciding which actions should be taken, and influencing behavioural change (Anthony and Govindarajan, 2007). Therefore, it also contributes to managing the behaviour of employees through rules, practices, values, and other activities (Chenhall, 2003; Marginson, 2002). While implementing strategies and accomplishing objectives, managers also ensure that resources are acquired and utilised effectively and efficiently (Langfield-Smith, 2007).

Previous research has classified many types of controls, such as formal and informal controls; technical and social controls; and diagnostic and interactive controls (Langfield-Smith, 2007; Tessier and Otley, 2012). Formal controls such as rules, standard operating procedures, and budgeting systems, are more visible than informal controls, which include unwritten policies of the organisation derived from

organisational culture (Langfield-Smith, 2007). Informal controls are described as sharing activities and performance-related information through discussions and consultations. Clan controls or social controls are usually part of informal controls (Langfield-Smith, 2007). Tessier and Otley (2012) recapped social controls as controls that are represented by core values, beliefs, and norms; that appeal to the emotional elements within employees and represent the manageable aspects of organisational culture. Technical controls are rules, procedures, and standards to organise individuals to perform tasks (Langfield-Smith, 2007). Tessier and Otley (2012) considered written procedures, such as goal setting, output controls and cybernetic controls as part of technical controls.

Malmi and Brown (2008, p. 291) proposed a conceptual typology of a MCS as a package. They prefer the term package to system because "the strength of the typology lies in the broad scope of the controls in a MCS as a package, rather than the depth of its discussion of individual systems". By considering a MCS as a broader package, the impact of implementing a new MCS element needs "to be considered in the context of the other components being used at the same time" (Otley, 2016, p. 53). Figure 2.2 provides the typology of the MCS package

Cultural Controls					
Clans		Values		Symbols	

Planning		Cybernetic Controls				Reward and Compensation
Long-range planning	Action planning	Budgets	Financial Measurement Systems	Non-Financial Measurement Systems	Hybrid Measurement Systems	

Administrative Controls		
Government Structure	Organization Structure	Policies and Procedures

Figure 2.2: Management control systems package
Source: Malmi and Brown (2008, p. 291).

Otley (2016) noted that the Malmi and Brown's typology is still used because most articles only study one component of an overall system. There are very few studies that have tried to capture the "totality of an overall system" and replace (Malmi and Brown, 2008) categorization; but their result failed to convey a major contribution (Otley, 2016, p. 53).

Martyn, Sweeney, and Curtis (2016) noted that an MCS as a package received greater attention in the MCS qualitative studies. On the other hand, budget and performance measurement systems are the two control systems that appear most frequently in prior MCS quantitative studies. Bobe (2012) stated that different organisations may use different element of MCSs. Daft and Macintosh (1984)included a long list the elements of a MCS. They involve budget, policy and procedures, performance appraisal system, statistical reports, strategic planning, long-range planning, strategic formulation, annual budget, performance appraisal, and policies and procedures for strategy implementation by mid-level managers. The role of globalization and technology have flattened the organisational structure, increased the importance of out-sourcing and paid more attention to non-financial measures. These trends lead to a simpler definition of a MCS. Bisbe and Otley (2004) viewed a MCS as a system with the elements of budgets, balanced scorecards and project management systems. Henri (2006) viewed MCS as planning systems, reporting systems, and monitoring procedures. Anthony and Govindarajan (2007) considered a MCS as a system that comprised of strategic planning, budgeting, resource allocation, performance measurement, evaluation and reward, responsibility centre allocation and transfer pricing.

2.3.1   Levers of Control

The role of a MCS in addressing intended or emergent aspects of strategy development and multiple definitions of strategy is further explored under Simons' levers of control framework (Simons, Dávila, and Kaplan, 2000; Tuomela, 2005). Simons' framework is based on four levers of control: belief, boundary, interactive, and diagnostic. In simplistic terms, boundary systems establish strategic limits and a business code of conduct; diagnostic controls are used to review current achievements with external and internal targets; belief systems are for enabling employees to be committed to targets; and interactive controls are used to challenge emergent strategies and encourage innovation (Arjaliès and Mundy, 2013).   The following section outlines the four levers of control in more detail by examining findings in prior literature.

In line with Simons' levers, belief systems are used by managers to enhance core values, inspire, and direct the search for new opportunities (Henri, 2006; Langfield-Smith, 2007; Simons, 1994; Tuomela, 2005). Further a belief system could be very general and may be embedded through mission statements or overall corporate policies

and can contribute to the overall culture and ethos of the organisation (Merchant and Otley, 2007).

Boundary systems on the other hand are designed to reduce and avoid risks by setting limits to an area of activity, and may be designed to avoid inappropriate behaviour (Merchant and Otley, 2007). Some examples of boundary systems are enforcing a code of business conduct for employees and setting strategic boundaries for innovation (Tuomela, 2005).

Tuomela (2005) described interactive controls as systems used to discuss strategic uncertainties, to learn novel strategic responses to a changing environment and to promote and provoke discussion. These control levers work simultaneously and balance tensions between the organisational need for innovation and the organisational need for achievement of pre-established objectives (Simons et al., 2000) .

Diagnostic systems are concerned with executing the strategic plan and monitoring its implementation (Kruis, Speklé, and Widener, 2015). According to Simons et al. (2000, p. 209), diagnostic control systems are "the formal information systems that managers use to measure the outputs of a process, compare predetermined standards against actual results, and correct deviations from pre-set standards of performance". Diagnostic control systems represent the normal type of management by exception reporting, where the organisation's critical success factors are communicated and monitored (Simons, 1994). On the other hand, interactive control systems are used to develop opportunity-seeking and further learning (Simons, 1994). They enable the organisation to identify obsolete strategies and to learn innovative responses to a changing environment (Merchant and Otley, 2007).

Naranjo-Gil (2016) studied the use of levers of control in hospitals in Spain by conducting a survey and found that diagnostic and interactive controls have a positive impact on hospital strategy. Boundary and diagnostic controls are found to have a positive impact on the execution of the current strategies, while belief and interactive controls positively affect emergent strategies.

Mundy (2010) and Tuomela (2005) observed how interactive systems play a role in the learning process when managers allow new ideas to be challenged and debated prior to

the implementation of new strategies. After new plans are discussed, belief systems are used to internally communicate the organisation's new direction or purpose, and diagnostic and boundary systems are re-adjusted to be in line with the new direction (Tuomela, 2005).

The diagnostic control is employed when the organisation distributes scorecard reports to members of management groups, allowing an immediate check on notable variances in the organisation's performance over time. The interactive control is employed when top managers discuss assumed cause-and-effect relationships and uncertainties underlying a few selected measures in order to find out the meaning and consequences of the measures. Simons et al. (2000) argued that new strategies usually emerge from bottom up when top managers learn about changing patterns in the business from their subordinates. Managers need to use performance measurement and control systems to encourage employees to innovate and communicate. Such feedback mechanisms will help managers to fine tune or changing their business strategy.

Previous literature also grouped Simons' levers of control into two categories; namely, strategic domain and strategy implementation. The levers used to cope with the strategic domain of an organisation are belief and boundary systems. The levers used to manage the implementation of a strategy, the measurement systems, and its feedbacks are interactive systems and diagnostic systems (Bisbe and Otley, 2004; Mundy, 2010; Simons et al., 2000).

A MCS comprises two competing roles that creates tension in the implementation of the organisation's strategy, ability to achieve goals, and gain competitive advantage (Henri, 2006). Mundy (2010) and (Widener, 2007) described the two roles of MCSs as controlling and enabling roles. According to Mundy (2010, p. 500):

> *"The controlling role of a MCS is associated with predictability, efficiency, formality, and the importance of meeting short-term targets while enabling the use of a MCS relates to spontaneity, transparency, adaptation, information sharing, enterprise, and adaptability. Controlling use aims to mitigate problems of information asymmetry, whereas enabling use seeks to reduce uncertainty and improve decision-making."*

Failure to balance the different roles of MCSs is associated with "slower decision-

making, wasted resources, and lower performance" (Mundy, 2010, p. 500). The enabling role is represented by the belief system and interactive controls (Mundy, 2010). The controlling role is represented by the boundary system and diagnostic controls (Mundy, 2010).

Diagnostic and interactive systems are considered to be the instruments for interpreting strategy and providing feedback to managers based on an organisation's performance (Henri, 2006; Simons, 1994; Simons et al., 2000; Tessier and Otley, 2012; Widener, 2007). A strategic performance measurement system or a budget system can be used both diagnostically and interactively with implications for belief and boundary systems (Tuomela, 2005). Therefore, a performance measurement or budget process can play an interactive role, a diagnostic role, or both. Furthermore, interactive controls are considered to be more effective when joined with a formal management control system. A comparison of the utilisation of diagnostic and interactive controls is in Table 2.4.

Widener (2007) described how diagnostic controls contributed to the effectiveness of interactive controls by signalling the organisation's position in relation to its strategic plan. Managers also need to use the performance measurement and control systems to encourage employees to innovate and communicate. Mundy (2010) and Tuomela (2005) observed that the interactive use of MCSs takes place in the learning process when managers allow new ideas to be challenged and debated prior to the implementation of new strategies. According to Henri (2006, p. 533):

> *"The interactive use of MCSs represents a positive force as MCSs are used to expand opportunity-seeking and learning throughout the organisation. The interactive use focuses attention and forces dialogue throughout the organisation by reflecting signals sent by top managers."*

Table 2.4: A comparison of diagnostic and interactive control form use

	Diagnostic Use of Controls	Interactive Use of Controls
Purpose	Provide motivation and direction to achieve	Stimulate dialogue and organisational learning
Goal	Prevent surprise	Creative search
Analytic Reasoning	Deductive	Inductive
System Complexity	Simple	Complex
Time Frame	Past and present	Present and future
Targets	Fixed	Constantly re-estimated

Source: Thorén and Brown (2004, p. 3)

A MCS can help managers to compose responses to changes by identifying problems at an operating level and finding solutions that allow the organisation to continue to operate at a steady pace (Kloot, 1995; Simons et al., 2000). In this case, the MCS is used in a single-loop learning where individuals, groups, or organisations modify their actions in a way that does not result in fundamental change (Bisbe and Otley, 2004; Kloot, 1995). On the other hand, an MCS can be used to detect and solve problems caused by environmental change at a fundamental level, which is equivalent to double-loop[13] learning. It is used in a pro-active manner to develop a new operating paradigm by questioning fundamental policies and assumptions (Kloot, 1995).

2.3.2 The relationship between management control and performance measurement

The terms "management control system" and "performance measurement" are often used together in the MCS research. Akbar et al. (2012) noted that performance measurement is an integral part of a MCS. Similarly, in her literature review study on MCSs and performance measurement, Siska (2015) reported that some research viewed performance measurement as a part of a larger MCS. In her conclusion, Siska (2015, p. 146) argued that on many occasions, performance measures and MCS are considered synonymously due to the significant similarities between the two concepts, leading to the overlapping use of the terms performance measurement and MCS.   In

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[13]   Single and double loop learning are elaborated further in the organisational learning section.

other research, Ferreira and Otley (2009) proposed a performance management framework to explain MCSs. They viewed the performance management and measurement fields as providing a more general and holistic approach than a management control system. Considering the degree of similarity between the two concepts, this study will include significant performance measurement research in the literature review section regarding MCS use in the public sector.

2.3.3 Previous studies on MCS and performance measurement use in the public sector

The use of MCS in government has been explored in a number of studies. Most of these studies have been conducted overseas rather than in Indonesia. Table 2.5 provides a brief summary of a selection of these studies. The following section emphasises the external and internal factors affecting MCS adoption and use.

2.3.3.1 External and internal factors affecting MCS adoption and use

Yang and Hsieh (2007) studied the impact of the external political environment, technical training, organisational support, and external stakeholder participation on the managerial effectiveness use of performance measurement by conducting a survey of 684 Taiwanese local governments. Relationships between all independent and dependent variables were found. Organisational support was found to be the most important predictor of the effective use of performance management. Other internal factors, such as top-management commitment, support from middle managers and successful subsystem collaboration were also found to be important factors in the utilisation of a new performance management system in the public sector.

In their study that examined the development of high performance management in the Australian public service, Blackman, Buick, O'Donnell, O'Flynn, and West (2012) suggested the importance for a public sector performance management systems to recognise and incorporate high-performing characteristics and practices within individual, group, organisation, and governance levels in the organisation. The governance level refers to the inter-organisational environment, leadership, and stewardship that support public organisations to achieve their goals.

In their study on municipalities in the Netherlands, Verbeeten and Spekle (2015) suggested that rules and procedures have a positive impact on performance. On the

other hand, providing autonomy to local managers can be counterproductive due to higher coordination costs, excessive opportunity-seeking behaviour, and failure to collect and organise best practices.

Peignot, Peneranda, and Amabile (2012) identified that local government managers were reluctant to adopt a new system because it may threaten the balance of power among departments and reduce bargaining power with other departments because all information, including departmental information, was to be available in the new system. They also pointed out that a lack of interest from top officials and the lack of technical competencies and human resource are contributing factors in public organisations' failures to utilise MCS.

Past research identified leaders' commitment and motivation as a contributing internal factor in fostering the adoption and use of an MCS. Moynihan, Pandey, and Wright (2012) examined the impact of transformational leadership on performance information use in US local governments. They found that a series of organisational virtues, such as leadership commitment to results, learning routines led by supervisors, the nature of the task, and the ability to link measures to actions are positive predictors of performance information use. Kroll and Vogel (2014) surveyed 200 local governments in Germany and found that regular use of performance information was affected by public managers' pro-social motivation.

Table 2.5: External and internal factors affecting MCS adoption and use

Author(s)	Methods	Key Findings
Yang and Hsieh (2007) Public agencies (Taiwan)	Survey/684 respondents	MCS: Government Performance and Results Mandate Findings: Organisational support, reflecting both top-management commitment and middle-manager support, and subsystem collaboration, is the most important predictor of performance measurement adoption and effectiveness. Lack of such support is a serious challenge in public sector performance measurement, as the adoption of performance measurement is often driven by external pressures and institutional isomorphism, not by internal management.
Moynihan et al. (2012) (US)	Survey/1538 respondents/organisational learning theory	MCS: Performance management routines Findings: Organisational factors: leadership commitment to results, learning routines led by supervisors, the motivational nature of the task, & the ability to link measures to actions are positive predictors of performance information use.
Peignot, et al (2013) Local Government (France)	Exploratory Survey/225 CIO and French Executive/ Decision Theory	MCS: Decision Support System (DSS) Findings: DSSs are important for local public managers in decision making, performance, and management control. In most cases, local government organisations do not need complex tools, and may overestimate their needs, driven by technology or

		vendor discourse. Barriers to DSS adoption include resistance to change, lack of interest from top executives, lack of technical competencies, lack of human resources.
Yetano (2013) Local Government (Australia)	Longitudinal Case Study/ Structuration theory	Findings: Performance Measurement and Management (PMM) PMM implementation benefits from incremental changes. Radical changes may provoke resistance and lead to abandonment of PMM. The initial steps in implementing PMM are promoting PMM-related terminologies and concepts, and establishing the new planning and reporting routines. Changes that impact power relations and resource distribution lead to purposeful use of PMM. Barriers to PMM implementation included performance information was developed but not used in decision-making. Symbolic commitment by projecting an image of good governance on one hand but showing personal resistance on the other
Rabovsky (2014) Universities (US)	Survey/138 respondents	MCS: Strategic planning and evaluation. Findings: Organisational use of performance data is strongly related to the political ideology of agency leaders. Performance management appears to be a vehicle through which personal preferences and predispositions of bureaucrats and organisational leaders can influence implementation.
Verbeeten & Spekle (2015) Public sector (Netherlands)	Survey of 96 municipalities agency theory	MCS: Performance measurement system. Findings: There is a positive effect of rules and procedures on both a results-oriented culture and on performance, and a negative effect of operational decentralization on performance. Internal deregulation ("letting the managers manage") leads to higher coordination costs, excessive opportunity-seeking behaviour and a failure to codify "best practices". There is no empirical support for NPM's other key tenets either; i.e., that the use of performance information for purposes of accountability and incentives ("making the managers manage") improves performance. Performance measurement matters if it is being used for focusing attention.
Brusca and Montesinos, (2016) (17 European countries)	International comparisons Institutional, agency & public choices theories	MCS: Performance reporting system. Findings: There is no convergence in practice or results among 17 countries. Institutional factors and administrative systems have an impact on the implementation of performance reporting, and the differences between countries are often a mirror of their governmental structures. Institutional factors influence the implementation of performance reporting. In many countries, it has been introduced by central and regional governments as a mechanism to control local government.

Yetano (2013) also found the importance of internal collaboration in implementing performance management and measurement in a longitudinal case study in an Australian local government. She suggested that changes in such systems are more likely to gain acceptance when done incrementally by gradually altering routines, because radical change can cause opposition and may lead to the abandonment of the system.

In his study on performance information use for strategic planning evaluation in US public universities, Rabovsky (2014) found that the use of performance data is

associated with leaders' political ideology. The finding indicates that leaders are able use MCSs as a vehicle to address their personal preferences.

Another empirical factor that impacts on MCS utilisation is culture. In studying factors that influenced the implementation of performance reporting, Brusca and Montesinos (2016) compared 17 Anglo Saxon, Nordic, and European countries and found that institutional factors and a cultural change were necessary for the adoption of new PM reform in public organisations that have a Neo-Weberian framework.

In this section, the concept of management control system and its relation to performance measurement have been discussed. External and internal factors affecting MCS adoption and use have also been identified. External factors such as external political environment, external stakeholder participation, inter-organisational environment and the balance of power among departments were found to be important predictor of the MCS adoption. Internal factors such as public managers' motivation, rules and procedures, organisational support, top-management commitment, leadership, stewardship, technical competencies and internal collaboration were predictors of management control adoption and use. The following section examines prior research that has explored the inter-relationship of management control systems, performance management and organisational learning.

2.4   Organisational Learning and Management Control Systems, Performance Management, and Accountability

Organisational learning is viewed as a very important concept that links the ability of a public organisations' managers to use knowledge and experience gained from performance information in order to make better decisions and improve their overall performance (Moynihan and Landuyt, 2009). The capability to learn becomes more important in the public sector due to the many interests involved in their policy-making process.

There has been a growing pressure for public organisations to achieve "value for money" in providing their services and to gain and maintain public trust from wider citizens (Burr, 2009). However, critics of government performance continue to be

vocal due to the many failed programs, indicating governments' failure to learn from their own past experiences or those of others. Organisational learning is an important outcome that can be used to explain the utilisation of data-driven decisions made by managers in order to improve program implementation or the policy-making process.

The following sections highlight the various topics related to organisational learning. Firstly key definitions are outlined followed by a review of organisational learning research in the ILG. The cultural and structural approaches to organisational learning are described, along with single and double-loop learning. Finally research that has examined the association of accountability and organisational learning is provided.

2.4.1   Prior organisational learning research

Organisational learning has been defined as an organisation's ability to monitor environmental changes and adjust its processes, products, and services to capitalize on those changes (Simons et al., 2000). Organisational learning can also be defined as the process of detecting and correcting errors in order to maintain the characteristics of an organisation (Argyris and Schon, 1996). The process of learning from experience is also viewed as an organisation's mechanism to adapt to the dynamics of change in its environment (Argyris, 1977). Burr (2009); Garvin, Edmondson, and Gino (2008) argued that learning continuously from an organisation's internal and external environment is the key to survival and achieving improvement. Learning from within an organisation involves experimentation and previous success or failures. Learning from outside an organisation involves observing other organisations or agencies.

Barrados and Mayne (2003) suggested that organisations intentionally change their structure, culture, and behaviour over a sustained period of time. The ability for organisations to learn is reflected in their ability to change their structure, systems, or processes. In order to be able to learn properly, an organisation needs to possess the capability to acquire, share, interpret, and recall knowledge (Huber, 1991). MCSs help organisations to learn by prompting managers with the discrepancy between actual performance and baseline standards. New knowledge can be gained when an organisation relates its performance information to its current problems, and uses this to influence behaviour and change routines (Moynihan and Landuyt, 2009). In the public sector, such feedback can be used to change the organisations' structure and

activities in order to develop better policy and deliver better policy implementation (Common, 2004).

The majority of previous literature agrees that organisational learning is driven by individuals in an organisation (Barker Scott, 2011). Organisational learning occurs through the inclusion of individual learning and organisational inquiry into organisations' memories (Argyris and Schon, 1996). Individual learning alone cannot be classified as organisational learning. It has to be transferred into organisational systems.

Knowledge is acquired by members of an organisation from experimentation, training, reports, databases, or from their interaction with others during job assignments. Individuals within the organisation need to contribute to group knowledge by sharing new schemas and skills with other members. The group keeps the new knowledge through cognitive and behavioural mechanisms.

At the organisational level, learning is managed by taking and embedding new knowledge into organisational strategy, structure, process, systems and norms that will be the foundation of future learning (Barker Scott, 2011). As organisations change and adapt over time, new knowledge gained by individuals can become part of organisational learning when it is included into the organisation's practices, procedures, routines, norms, strategies and values (Argyris and Schon, 1996; Barrados and Mayne, 2003).

Garnering and utilising experience to drive change is a crucial part of the concept of organisational learning. Learning involves generating knowledge from previous shortfalls, and using this knowledge to change organisational routines and ensure behavioural change (Ebrahim, 2005). Baldersheim, Bucek, and Swianiewicz (2002) argued that actual learning happens when an organisation "makes a relatively permanent change in its behaviour on the basis of experience". Moynihan and Landuyt (2009) suggested learning as the process of developing accepted and applicable experiences held by organisational members.

Organisational learning develops knowledge from past actions to deliver more effective future actions. It also accelerates the information-processing activities that facilitate an

organisation gaining competitive advantage Henri (2006). Relevant acquired knowledge will be codified and combined to create new insight. At this stage, an organisation plays an important role in converting individual knowledge into learning by providing a conducive organisational structure for individual knowledge to be tested and applied among members of the organisation. Organisations that have a supportive context, culture, and structure for learning are able to convert individual knowledge into group knowledge. They do so by encouraging professionals within the organisation to discover and share new abilities (Neo, 2007). Over time, group knowledge can become a culture and institutionalised into routines that eventually shape individual learning. This feed-forward and feedback interplay has enabled learning flow among individual, group, and organisational learning (Barker Scott, 2011; Gilson et al., 2009)

The concept of organisational learning has also been described from a cognitive perspective that views that an organisation gains new knowledge through individual learning and organisational structure in order to be able to adapt and survive. Research that follows a cognitive perspective has described organisational learning as the process of developing new insights by revising cognitive understanding (Barker Scott, 2011; Rashman et al., 2009). However, the cognitive approach fails to bring new awareness or understanding, as it does not involve changing the behaviour of the members of an organisation.

A cognitive-behavioural perspective describes the internal environment of an organisation that encourages learning by promoting a new behaviour or altering existing values and structures after developing new insights and interpretations (Barker Scott, 2011). Implementing new strategies or employing new actions is required in the cognitive-behaviour perspective in order to complete the learning cycle of an organisation. Cognitive mechanisms store knowledge, group norms, mindset and schemas in the learner's mind. Behavioural mechanisms maintain new knowledge through routines, protocol and practice standards (Barker Scott, 2011).

The context for learning is also described through social practices and shaped by the organisation's norms, rules and resources (Moynihan and Landuyt, 2009). Barker Scott (2011) and Rashman et al. (2009) reported that cognitive insight and behavioural applications actually work together during the ongoing social interaction among

professionals in an organisation. Such interaction improves the organisation's ability to acquire, disseminate and use knowledge. The social construct approach views that the state of knowing occurs from the interactions between members of an organisation when they look for solutions to the organisation's challenges. Instead of acquiring and holding knowledge, the social construct approach encourages professionals to bring, share, and refine their ideas to resolve a specific scenario (Barker Scott, 2011; Rashman et al., 2009).

By continually transforming their activities, public servants use their personal and organisational experiences to find feasible and legitimate solutions (Moynihan and Landuyt, 2009). Within the realm of government, the absence of a systematic learning approach in an environment will expose it to bureaucratic politics. Rashman et al. (2009) suggested the social construct approach is relevant in explaining organisational learning in the public sector since the majority of government organisations are filled with professionals, and the interactions among them can allow individuals to take lessons from their professional judgement and experiences. This study uses the social construct approach to investigate factors that influence organisational learning in ILGs. The approach will be useful in understanding various facilitating factors affecting government organisations' learning ability in their effort to improve services, and to achieve better productivity and accountability.

2.4.1.1   Organisational learning research in the ILG

Prior organisational learning research has tended to focus on the for-profit sectors, highlighting a current gap in the literature. Despite the substantial reform in the public sector, relatively little attention has been given to developing organisational learning concepts in the public sector (Gilson et al., 2009; Rashman et al., 2009). The concept of organisational learning in the government sector is differentiated from the private sector. This is due to the bureaucratic nature of government organisations', their different goals that are service oriented as opposed to profit orientated, along with the nature of the relationships among the different government agencies that regularly interact to achieve common goals. Importantly the current study has identified a noteworthy gap in the literature (as suggested by Rashman et al. (2009)) and will investigate ILGs' learning capabilities in the context of the adoption and implementation of SAKIP, which has been underway for almost 17 years.

There is limited prior research that has examined ILGs' organisational learning capabilities as a result of utilizing SAKIP. Two studies examine the association between exploratory use of performance information and performance with mixed results. Exploratory use of performance information is seen as supporting organisational learning abilities by providing a double-loop[14] learning mechanism when an organisation uses their performance measures for decision-making. Wijaya and Akbar (2013) found that external pressures had a positive impact on the use of performance information for exploratory purposes. On the other hand, Ahyaruddin and Akbar (2016) did not find a significant association between exploratory use of performance information and organisational performance.

2.4.2   Cultural and structural approaches to organisational learning

There are two major approaches in the organisational learning research: cultural and structural approaches. A cultural approach suggests organisational learning needs to be viewed as a cultural process. The approach argues that learning is facilitated through shared norms or meaning that affect the organisational learning capacity (Moynihan and Landuyt, 2009). A strong learning culture promotes inquiry, employee empowerment, participation and organisational openness (Argyris and Schon, 1996; Moynihan, 2005; Moynihan and Landuyt, 2009). On the contrary, a weak learning culture is indicated by the existence of taboo subjects that discourage employees from exploring new approaches, and defensive norms where errors are used for punitive purposes (Moynihan and Landuyt, 2009).

Structural approaches on the other hand, emphasise the significance of organisational structures and formal mechanisms that enable organisations to learn. The approach views structural procedures as playing an important role in encouraging individual learning, capturing new knowledge from the members of the organisation and utilizing the knowledge for organisational purposes. In their study regarding organisational learning models in Texas State agencies, Moynihan and Landuyt (2009) suggested that structural and cultural approaches complement one another in explaining organisational learning.

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[14] Double-loop and single loop learning are described in more detail in the next section.

2.4.3 Single-loop and double-loop learning

Organisational learning can be categorised into two types of learning: single-loop and double-loop learning (Argyris and Schon, 1996; Kloot, 1995; Simons et al., 2000). Single-loop learning refers to the learning process where organisations develop and use performance information to detect errors and propose modifications to current practices without changing organisational objectives and core assumptions (Argyris and Schon, 1996; Bisbe and Otley, 2004; Kloot, 1995). Within single-loop learning, adjustments such as process refinement or performing a more efficient task are made within the existing routines. For example, procedures, strategies and rules (Levinthal and March, 1993). Since single-loop learning focuses on tracking the achievement of organisational goals, it does not help organisations to identify changes that question the validity of the organisation's assumptions, goals, strategies or policies (Moynihan, 2005).

Double-loop learning is described as a type of learning that allows organisations to answer such challenges that require organisations to revisit their fundamental policies or goals in order to achieve long-term organisational success (Argyris and Schon, 1996; Kloot, 1995; Moynihan, 2005). When organisations face a crisis triggered by their external or internal environment, their existing goals, practices or strategies may no longer be useful, and a search for a new belief system or organisational paradigm may be required. During such crises, double-loop learning allows organisations to explore alternative solutions by re-examining organisational values and norms, investigating new routines and taking risks to innovate with new policies.

Public organisations ideally need to have a balanced use between the two types of learning. Both types of learning require information to be managed prior to a decision-making process. Single-loop learning is required to improve organisations' current routines to achieve their goals in a more efficient way. Gilson et al. (2009) noted that single-loop learning in government agencies focuses on maximizing inputs–outputs productivity. However, being highly reliant on single-loop learning may prevent organisations from adopting new strategies that anticipate environmental change. Therefore, organisations also need to have double-loop learning capabilities that allow them to change their strategies and maintain long-term organisational effectiveness.

Under the NPM reform, performance information is the most important resource used to gain previous knowledge and to improve actions and performance. A failure to use the available performance information will lead to a failure of learning (Moynihan and Landuyt, 2009). Moynihan and Landuyt (2009); Moynihan and Lavertu (2012) suggested that a passive approach to performance information use and limited learning routines can contribute to such failure. The term 'passive approach' refers to, for example, public organisation officers using the performance information passively by complying with the minimum procedural requirement but not using the data generated by the systems to improve performance. Limited learning routines refer to reforms that encourage learning routines only for high-level managers. This also can limit the organisational ability to learn. In analysing the relationship between results-based reforms and managerial use of performance data in the U.S. federal government, Moynihan and Lavertu (2012) argued that the reforms did not fulfil their potential because they only managed to encourage passive forms of performance information use. They suggested that top-down reforms may have a better opportunity for success when they have the capacity to link and alter the organisation's existing routines. Gilson et al. (2009) noted that double-loop learning was often triggered by interventions from government ministers to improve the agencies output–outcome effectiveness.

Some authors argued that learning in the public sector is still focused on single-loop learning because of socio-political obstacles Gilson et al. (2009). Government successions due to general election cycles hamper public agencies from conducting double-loop learning by trying out new policies. As a part of the experimental process, some new policies can fail. However, leaders of government organisations want to avoid being seen as making mistakes. As politicians, these leaders want to be seen as successful. They prefer to conduct incremental patterns of single-loop learning and avoid more ambitious learning in the form of innovations that require regular policy reviews. They are also discouraged from preparing long-term learning responses based on thorough analyses of market forces, theoretical, and empirical evidence. Gilson et al. (2009) suggested that government organisations have an obligation to explain the ideology and reason behind their policy to public inquiries. Tuomela (2005) also showed the diagnostic and interactive use of a strategic performance measurement

system and suggested single and double feedback loop learning.

2.4.3.1   Diagnostic use, interactive use and organisational learning

Previous management accounting research also identified the importance of goals clarity, consultation, and learning in order to have successful PM reform. Selected previous MCS and performance measurement studies, including the most current ones, have been included in this study. Table 2.6 provides a summary of past studies that are related to commitment, culture, internal collaboration, and new routines.

Poister, Pasha, and Edwards (2013) identified that the utilisation of strategic planning and performance measurement is positively related to small and medium-sized transit system industries in the United States. They also found industries have a better performance when they implement a strategy driven by experimentation and learning.

In their study on 101 organisational units within the Dutch public sector, Speklé and Verbeeten (2014) suggested that the positive effects of a PM system on organisational performance can be achieved when the organisational goals are clear and measurable. They also identified that the exploratory use of a PM system that enables learning, mutual consultation, and adaptation also has a positive effect on performance. On the other hand, the use of performance information for motivating and controlling employees has a strong negative effect on performance signalling that the emphasis on incentive may bring contradictory results.

Kroll (2014) examined the use or non-use of performance information in German cities and proposed that the use of performance information can be explained by a high level of data ownership, creative learning preferences, the absence of cynicism, and public service motivation. On the other hand, managers' socio-demographic characteristics, identity, and emotional intelligence were not associated with the use of performance information.

2.4.4   Accountability and organisational learning

Prior research has also attempted to link accountability and transparency to organisational learning capabilities. Governments are encouraged to learn from external feedback received, and delivers more effective and efficient services. Greiling and Halachmi (2013b) argued that accountability results in better performance when

improving long-term performance and learning from past experiences are the focus. Baxter, Colledge, and Turner (2017) found that accountability can promote effective organisational learning if: (1) learning objectives align with senior leaders' objectives, (2) failures are used to promote learning, and (3) failures are not used for damaging people's reputation.

Despite performance measurement regimes being well established and institutionalised in the United States and European Union countries, Mahler and Posner (2014) argue that some features of such performance regimes can impede organisational learning. The design of a centralised performance measurement initiative that links performance scores to budget allocation, such as the Program Assessment Rating Tool (PART) or the president's Office of Management and Budget (OMB) in the United States, can inhibit learning because such initiatives encourage the agencies to defensively conform to the assessment process (Mahler and Posner, 2014). Baxter et al. (2017) suggest such assessment process can develop the sense of insecurity resulting from being punished and humiliated. Greiling and Halachmi (2013b) assert that the blame culture that appears from accountability arrangements can trigger defensive routines that obstruct organisational learning in the public sector.

Table 2.6: Diagnostic and interactive use, and organisational learning

Author(s)	Methods	Key Findings
Poister et al. (2013) Public Transit Industry (US)	Survey/88 respondents	Extensive use of performance management practices contribute to increased effectiveness in this segment of the transit industry. These results provide limited evidence that both strategic planning and performance measurement, the principal components of performance management in public organisations, do contribute to improved performance in small and medium-sized transit systems in the United States.
Spekle and Verbeeten (2014) Public sector (Netherlands)	Survey/101 respondents	There is a strong direct negative effect of an incentive-oriented use of organisational performance. However, this effect is less severe when contractibility is high. An exploratory use of the performance measurement system tends to enhance performance; this positive effect is independent of the level of contractibility.
Kroll (2014) Cities (Germany)	Survey/284 respondents/manager-related theories	Performance information use is explained by a high level of data ownership, creative cognitive learning preferences, the absence of cynicism, and a distinct public service motivation. Identity and emotional intelligence were found to be insignificant along with the managers' socio-demographic characteristics.
Hajnal and Ugrosdy (2015) Local	Comparative case study/2 entities/	Even though performance management is not known in Hungary as defined in the academic literature, there are signs on the ground that PM ideology and actual use are gaining traction in every field of public service, both in

Government (Hungary)		central and local governments. Development of PM is not restricted per se by the administrative tradition, but can overcome historical and administrative barriers to shape and modernise public institutions.
Elbanna et al. (2015) Public sector (Canada)	Online survey/180 respondents	Formal strategic planning has a strong positive relationship with the success of strategy implementation.
Naranjo-Gil (2016) Hospitals (Spain)	Survey/116 respondents	Boundary and diagnostic control systems have primarily a positive impact on the realization of deliberate strategies, whereas belief and interactive control systems positively affect emergent strategies. Managers should focus on both the design and the use of management control systems to implement strategies successfully.
Nuhu et al (2017) Public sector (Australia)	Survey/127 respondents/ contingency theory	The interactive and diagnostic use of MCS influences the use of contemporary management accounting practice. Both the interactive and diagnostic approaches exhibit a positive association with the adoption of contemporary management accounting practices. In addition, while the level of success of contemporary management accounting practices was moderate, it was found that the extent of adoption of the practices enhanced their success.

2.5   Research gaps addressed in the present study

This study will make a number of contributions to the growing literature on MCSs by focusing on the adoption and use of MCSs as a means to achieve organisational learning capabilities within ILGs. Moynihan (2005) suggested that adoption may be driven from external pressures and implementation can be driven from managers' reactions toward the pressures. This study will use the diagnostic and interactive use of SAKIP in order to empirically test the impact of SAKIP utilisation on the ILGs' organisational learning capacities.

Despite the increasing attention received by MCS studies in the last two decades, most of the research is focused on the for-profit sector, where the respondents have some degree of flexibility in designing the MCS or on the public sector in developing countries. Since SAKIP was designed and initiated by the MSAEBR, this study investigates the impact of adopting and implementing a centralistic control system by local government.   Further the present study provides insights into how performance measurement practices become accepted, resisted, or modified by local governments in Indonesia.

Building on the work of Simons, this thesis will investigate the use of one important aspect of a MCS, namely the performance measurement system in the ILG. The

implementation of SAKIP in ILG aims to improve performance-related information for decision-making, performance measurement and benchmarking. The thesis will emphasise the interaction between diagnostic and interactive controls by focusing on the process of elaborating and implementing strategies. The diagnostic and interactive use of SAKIP will provide feedback about the implemented strategy to ILG managers. SAKIP contains performance measures linked to the budget that can be used diagnostically by internal management to ensure that the selected strategy leads to the achievement of the organisation's goals. Belief and boundary systems are not the primary concern of this study because they focus more on the strategic domain and the design of the MCS, while diagnostic and interactive controls are very much related to the use of MCS and its feedback (Naranjo-Gil, 2016; Nuhu et al., 2017). The current study focuses on the diagnostic and interactive use of MCSs, and their impact on the operating activities within the ILGs (Nuhu et al., 2017). Therefore, the belief system and boundary system are not explored despite their importance in Simons' levers of control framework.

This study will further investigate the basic assumptions behind the implementation of NPM style control systems at ILGs. Taylor (2011) argued that the major assumptions behind performance measurement initiatives are that the information generated from such systems will be used by decision-makers to learn about the area that is being measured, and therefore will be used to improve their decision making. Other scholars stated that the countries that adopt the systems do so in the hope that policy and decision making can be based on performance information that will lead to more effective management and better strategy implementation (Pollitt and Bouckaert, 2004). The concept is so logical and captivating that public managers across the world apply NPM reform with striking similarity from one country to another, which is by forming strategic goals followed by setting up performance measures. Such reforms have been institutionalised in all tiers of government from both developed and developing countries. Mahler and Posner (2014) argued that to a certain degree, these performance measurement regimes may actually impede public agencies from learning from performance information. Features such as submitting performance reports to or performance assessment by central government may send the message that failures in program execution may bring public humiliation and lost resources, instead of being

seen as a process of learning (Mahler and Posner, 2014). McCurdy and Casamayou (2011) described learning as a process to acknowledge failures and solve the underlying problems that cause failures by using experience or performance information.

This study fills a gap in the literature by investigating the impact on ILGs' organisational learning capabilities of implementing a centralistic MCS through formal rules and procedures. The study utilises diagnostic and interactive concepts from Simon's levers of control framework to analyse the use of SAKIP and its impact on ILGs' organisational learning capabilities. While most studies have examined the use of SAKIP on ILG performance, this study uses organisational learning as its final dependent variable. Organisational learning has been viewed as the key concept of public management reform. It views that the organisations' ability to improve, relies on the actors' capacity to use performance information to identify organisational weakness and arrange remedial actions (Moynihan and Lavertu, 2012).

Previous MCS studies in the public sector used performance as their dependent variable. Utilizing performance as the final dependent variable can be problematic because measuring and comparing performance for some programs can be more difficult than for others. Gao (2015) argued that the connection between implementing an improved performance measurement system in a public organisation and the performance itself is not a direct link. There are other significant factors that need to be included in the equation prior to determining the performance of a public organisation. Therefore, this study is unique in bringing the management control system and organisational learning streams of literature together through empirical investigation in the Indonesian public sector.

2.6   Summary

This review was organised under three key themes.   Firstly a comprehensive background to the Indonesian public sector and the regulations and guidelines relevant to this study related to LAKIP and SAKIP was provided.   Further, prior literature that has examined performance measurement systems in the ILG were elaborated. Secondly important literature that has explored the facets of MCSs was provided. This included prior research into the levers of control, the relationship of MCS and

performance measurement and specifically identifies public sector research pertinent to the current study. The final main theme emphasised aspects related to organisational learning that is the dependent variable for the present thesis. The important research gaps and contribution of the present study were identified in section 2.5.

This thesis will contribute to management accounting research by studying the relationship between adoption factors and the use of SAKIP. Since SAKIP was designed and initiated by the MSAEBR, the thesis will investigate the impact of adopting and implementing a centralistic control system by local government. The study will investigate the view of SAKIP as tools to contributing to the implementation of the intended strategy and stimulating the emergence of new strategies. The way ILGs combine diagnostic and interactive use of SAKIP to manage tensions between freedom to innovate and achieving pre-determined targets in ILGs will be observed. Finally, the positive or negative effects of the use of SAKIP on organisational learning will be investigated to disclose the distinctive potential of SAKIP for ILGs. This will add a significant methodological contribution to the pool of literature.

In order to investigate the impact of the adoption and utilisation of MCSs, this thesis applies institutional theory as the theoretical framework of the study. Detailed explanations about the theoretical framework are presented in Chapter Three.

Chapter 3: **Theoretical Framework and Research Design**

3.1 Introduction

The previous chapter identified key issues after critically analysing research considering the adoption and use of SAKIP in ILGs using academic journals. The purpose of this chapter is to develop a theoretical context that can accommodate these issues. Reflecting from institutional theory, this chapter develops a theoretical model of the adoption of SAKIP in ILGs and the relationship between the use of SAKIP and ILGs' organisational learning capabilities. The first section explains the conceptual model and hypotheses of the thesis. It will develop a conceptual model mapping the relationship between the factors in adopting SAKIP; the associations between diagnostic and interactive use of SAKIP; and ILGs' organisational learning capabilities. Hypotheses will be drawn from the model and tested using statistical analysis. The second section

explains why institutional theory is selected as the theoretical backbone of the study. The next four sections describe the definitions of various terminologies used in institutional theory, including isomorphism and how organisations strategically respond to institutional pressures. Finally, section 3.16 will provide a summary of the chapter.

3.2   Conceptual Model and Hypotheses Development

Previous studies on MCSs have identified antecedent factors that drive the utilisation of control systems and affect an organisation's ability to learn and achieve its performance (Anthony and Govindarajan, 2007; Bisbe and Otley, 2004; Henri, 2006; Kloot, 1995). Factors surrounding adoption of SAKIP by ILGs and how those factors influence SAKIP's utilisation and ILGs' organisational learning capabilities will be observed. The model shown in Figure 3.1 was developed by combining research concepts from Upping and Oliver (2011) and (Widener, 2007). In this model, the relationship between the factors in adopting a control system and the associations between diagnostic and interactive controls will be investigated. The hypotheses development is now explained in detail.
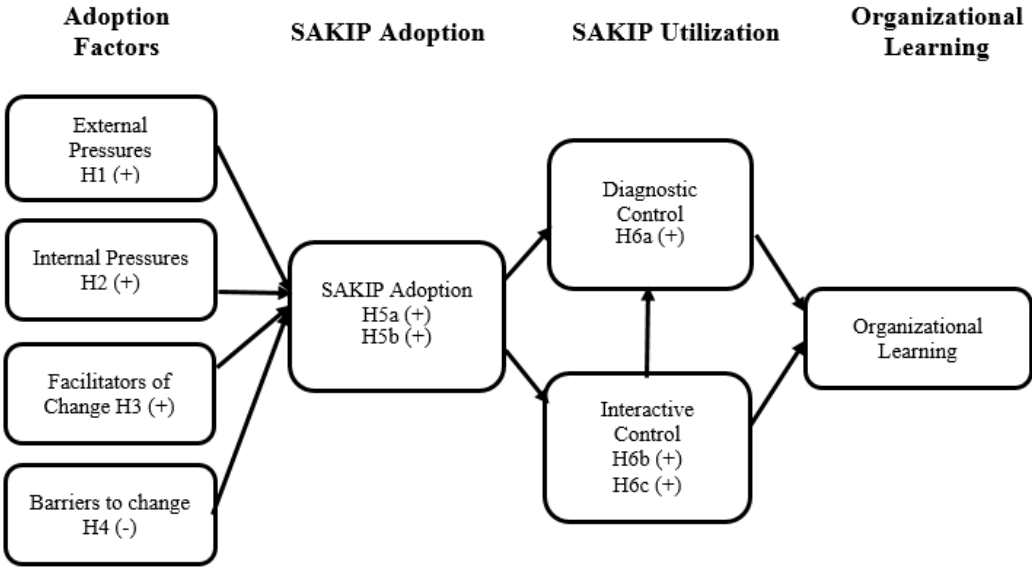
Figure 3.1: Conceptual Schema

3.3 Adoption Factors

An adaptation of Luder's model, as modified by Upping and Oliver (2011), will be employed for this thesis. The adapted model will be used to identify internal and external factors that act as catalysts for, and influence the implementation of, accounting change in organisations. It incorporates motivators, barriers, and facilitators of change to better understand the likelihood and the purpose of change. Upping and Oliver (2011) re-classified the variables into: (1) external pressures, (2) internal pressures, (3) facilitators of change, and (4) barriers to change.

3.3.1 External pressures

External pressures refer to organisational factors that can shape the process of change. It creates a demand for an organisation to gain social legitimacy by maintaining a good relationship with the external environment (Meyer and Rowawn, 1977). New institutional sociology suggests that organisations opt to accommodate external pressures in order to manage their legitimacy, provide stability and minimise disturbance in achieving their organisational goals[15]. External pressures can occur from (1) the external organisational environment, such as economic crises, new regulations, new technology, and political competition (Upping and Oliver, 2012); (2) external users of information, such as politicians, parliamentary committees or Auditors-General. Political actors, including ministers, opposition members and political advisors may use public sector accountability reports in an attempt to satisfy voters' needs and to remain politically competitive (Christensen, 2002; Upping and Oliver, 2011). Administrative actors, such as the MSAEBR or the Auditor-General, may also refer to accountability reports when performing their accountability roles (Christensen, 2002). After 16 years of implementation, SAKIP has been viewed as a sign of improved accountability and professionalism. While MSAEBR evaluates SAKIP and publishes the results every year, local politicians may use an improved SAKIP score to demonstrate their competencies in public management in order to increase their prospect of re-election. Since the generic nature of external pressures for implementing SAKIP is the emphasis to comply with associated regulations, the first proposed hypothesis is:

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[15] New institutional sociology (NIS) is a type of institutional theory that views organisations are influenced by the institutions in their environment. NIS was further elaborated in section 3.9

H1:   There is a positive relationship between external pressures and the adoption of SAKIP.

3.3.2   Internal pressures

Internal pressures are described as factors from within organisations that can lead to and motivate a change in the organisation (Upping and Oliver, 2011, 2012). It can occur from (1) the internal organisational environment, such as attitudes toward change, consistency, system openness, budgetary pressures, change in the key leadership positions, change in top management policy, or change in the power dynamics of the organisation (Upping and Oliver, 2012); (2) internal users of information, such as the mayor or the governor of a local government. Internal pressures are also described as mandated policies and legislation which can target the reporting system directly (Yamamoto, 1999). Besides instructing ILGs to prepare and submit SAKIP, MSAEBR also instructed ILGs to prepare the SAKIP report at operational levels. Such direction may necessitate ILGs hiring more consultants with particular skills to perform the task. New institutional sociology also suggests that organisations may obtain perceived legitimacy from adopting new management practices through normative pressure. While regulations can create coercive pressures, professionals and consultants working in ILGs may exert normative isomorphism and bring a different paradigm that shapes the adoption and utilisation of SAKIP. As expressed by Norhayati and Siti Nabiha (2009, p. 260) "the experience of a specialised education, and the involvement in professional networks, influence how professional personnel undertake their activities within an organisation". Hence, the second proposed hypothesis is:

H2:   There is a positive relationship between internal pressures and the adoption of SAKIP.

3.4   Facilitators of Change

Facilitators of change are factors that bring direct influence on a successful change or reform. Upping and Oliver (2011) identify three actors that facilitate a change to process. They are promoters of change, producers of information, and communicators of change. Promoters of change are people or organisations that foster the adoption of a new technique because they have a special interest in the targeted organisation. They raise the problem, recognise the need to change and promulgate the solution (Christensen, 2002). Previous research found that the roles of promoters of change

contribute to the success of change (Christensen, 2002). In order to understand the response from organisational actors toward the adoption of a new management technique, this study will include the old institution economics view from institutional theory. Old institution economics is used to recognize organisational actors who take a role as institutional entrepreneurs.[16] With respect to the adoption of SAKIP, the MSAEBR has become a prominent promoter of change throughout the introduction and mobilization process of SAKIP. Other possible promoters of change in the public sector are international aid agencies. These agencies can directly or indirectly stimulate change by requiring an agency to implement an innovation prior to providing assistance. Producers of information are bureaucratic actors responsible for providing accounting information to users such as central agencies, politicians, and auditors (Christensen, 2002; Upping and Oliver, 2011). In SAKIP's case, this responsibility is exerted by the MSAEBR as well as by ILG senior officials who have the responsibility of preparing the performance report. Lastly, communication is also an essential part in facilitating change through knowledge transfer. In their research, Upping and Oliver (2012) included training, seminars, publications, technology and allocated staff resources as elements of communicators for change. This leads to the third hypothesis:

> *H3: There is a positive relationship between facilitators of change and the adoption of SAKIP.*

3.5   Barriers to Change

Barriers to change are described as features of the public sector that hinder, delay or prevent change (Upping and Oliver, 2011). Some examples of barriers of change are: differences in value systems, insufficient commitment, lack of necessary knowledge and skills, or a conflicting ethos (Upping and Oliver, 2011). Harun and Robinson (2010) defined barriers as features of political and bureaucratic environments that impede an initiative. Christensen (2002) stated that barriers of change restrict the option for innovation by increasing the cost or time required to implement the change. Old institutional economics suggests that human actions and routines may shape institutions and vary practices from one organisation to another (Delmas and Toffel, 2004). Organisations may fully or symbolically use new innovations as their response to different demands from different groups of stakeholders. Internal stakeholders are

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[16] The concept of OIE was further elaborated in section 3.9

important in determining the status within an organisation that may not be consistent with external demands. Previous research highlighted low institutional capacity due to a lack of qualified staff, changing priorities, inadequate information systems, staff attitudes, the uncertain role of the proposed change in the organisation, limited involvement of stakeholders, high levels of corruption, and high levels of informality as barriers to change that threaten the successful adoption of reform in the public sector (Christensen, 2002; Harun and Robinson, 2010; Upping and Oliver, 2011, 2012; Yamamoto, 1999). Hence, the fourth hypothesis is:

> *H4: There is a negative relationship between barriers to change and the adoption of SAKIP.*

3.6 Adoption of SAKIP

SAKIP is intended to be a more informative control system in the public sector. In addition, the implementation of SAKIP in ILGs is aimed at improving not only performance measurement but also decision-making and benchmarking in ILG programs. The adoption of SAKIP involves measuring program activities and results. The MSAEBR has issued a series of SAKIP guidelines that help ILG managers to not only clarify the purpose and intended results of a program but also to assess a program's intention and to communicate its achievement (Akbar et al., 2012).

On the other hand, the strong emphasis on coercive pressures by the MSAEBR on ILGs may lead some portion of SAKIP adopters to decouple their internal activities from SAKIP. Agostino and Arnaboldi (2011) suggested that implementation problems may arise when a new MCS is applied to an organisational context. Many of the potential applications of the new system are overlooked because of a lack of clarity regarding the objective of changing over to the new system. As a result, managers may have little or no commitment to the outcome of the MCS change (Walley, Blenkinsop, and Duberley, 1994). Davila, Foster, and Li (2009) argued that adoption of a new MCS will lead to better performance when managers have prior knowledge about how the new MCS will respond to a particular emerging need, such as improving communication or increasing organisational efficiency. These managers recognise a new MCS as the tool required to respond to the organisation's environmental change and facilitate growth. Davila et al. (2009) also found that a new MCS seems to fail to improve performance when the system is adopted as reaction to external pressures, crises or problems. They argued that

this failure can be due to managers' inability to utilise the new MCS to access essential knowledge from the organisation, thus failing to bring the required structure to improve performance. Therefore, this thesis will investigate the impact of SAKIP adoption on the styles of use of SAKIP in ILG. Factors in SAKIP adoption can refer to the diagnostic and interactive use of SAKIP by ILG officials. While external pressures may not encourage ILGs to fully utilise SAKIP, the pressures from within ILGs can encourage the diagnostic and interactive use of SAKIP to provide an adequate and satisfactory basis for planning, decision-making, and evaluation. Hoque and Alam (1999) suggested that even though the organisation's reason to initiate a new MCS practice is to promote institutional culture rather than for technical reasons, a new MCS may still change the organisation's internal control mechanism.

With this the fifth hypotheses are:

> *H5a: There is a positive relationship between the adoption of SAKIP and its use in a diagnostic control system.*

> *H5b: There is a positive relationship between the adoption of SAKIP and its use in an interactive control system.*

3.7   SAKIP Utilisation

Diagnostic and interactive systems are considered to be the instruments for interpreting strategy and providing feedback to managers based on an organisation's performance (Henri, 2006; Simons, 1994; Simons et al., 2000; Tessier and Otley, 2012; Widener, 2007). A strategic performance measurement system or a budget system can be used both diagnostically and interactively with implications for belief and boundary systems (Tuomela, 2005). The diagnostic and interactive use of SAKIP will provide feedback about the implemented strategy to ILG managers. SAKIP contains performance measures linked to the budget that can be used diagnostically by internal management to ensure that the selected strategy leads to the achievement of the organisation's goals. Further, SAKIP results can be used interactively during the end-of-year review by MSAEBR and other related agencies.

3.8   Control Variables

Although not shown in the model, the control variables in the study are "type" of local governments, ILG "size", and ILG "location". Past research in ILG has used these

control variables to describe the relationship between core variables and ILG characteristics (Akbar et al., 2012). The thesis will examine any differences between different sized ILGs (using revenue as the proxy) in the use of SAKIP. Finally, possible differences between ILG location (e.g. Java or non-Java) and the use of SAKIP will also be examined.

3.8.1 Diagnostic controls

According to Simons et al. (2000, p. 209), diagnostic control systems are "the formal information systems that managers use to measure the outputs of a process, compare predetermined standards against actual results, and correct deviations from pre-set standards of performance". They represent the normal type of management by exception reporting, where the organisation's critical success factors are communicated and monitored (Simons, 1994). Diagnostic controls signal, communicate, and monitor the achievement of ILGs' critical success factors. They help managers to compose responses to changes by identifying problems at an operating level and finding solutions. These solutions then allow the organisation to continue operating in a steady state (Kloot, 1995; Simons et al., 2000). In this case, SAKIP is used in a single-loop learning where managers modify their actions in a way that does not result in fundamental change (Bisbe and Otley, 2004; Kloot, 1995).

3.8.2 Interactive controls

Interactive control systems are used to develop opportunity-seeking and learning (Simons, 1994). They enable the organisation to identify obsolete strategy and to learn innovative responses to a changing environment (Merchant and Otley, 2007). Tuomela (2005) described interactive controls as systems used to discuss strategic uncertainties, to learn novel strategic responses to a changing environment and to promote and provoke discussion. Interactive controls are employed when top managers focus on selected measures in order to find out the strategic meaning and consequences of the measures (Tuomela, 2005). Simons et al. (2000) argued that new strategies usually emerge from the bottom up when top managers learn about changing patterns in the business from their subordinates. SAKIP is intended to be used interactively to improve the quality of strategic management and to increase commitment to strategic targets. According to Widener (2007, p. 762):

> *"The interactive use of performance measures influences the diagnostic use of performance measures since the latter provides the necessary structure that enables the interactive control system to be effective. As the organisation adjusts to the strategy that emerges through the interactive system, the diagnostic PM system must also adjust in order to reflect the firm's new strategic position and critical success factors."*

Therefore, the interactive use of SAKIP can influence the diagnostic use of performance measures embedded in SAKIP in communicating the strategy and making timely adjustments that reflect new critical success factors (Widener, 2007).

3.8.3   Organisational learning

The organisation's ability to detect problems and determine the solution is considered to be an important element for its growth and survival in a changing environment (Henri, 2006; Kloot, 1995). As one important aspect of an MCS, a performance measurement system can create consistency between strategic decisions and action by providing the organisation with a basis to collectively learn, challenge ideas, and improve performance (Bisbe and Otley, 2004; Srimai, 2011). Previous studies have shown the impact of the diagnostic and interactive use of strategic performance measurement systems in a timely manner to generate organisational learning (Henri, 2006; Kloot, 1995; Kruis et al., 2015; Tuomela, 2005). Such feedback mechanisms can help managers in fine tuning or changing their business strategy.

Based on the above discussion, it is argued that diagnostic and interactive control systems will facilitate ILGs' orientation to organisational learning. Therefore, the hypotheses designed to test these assertions are formally stated as:

> *H6a: The emphasis ILGs place on the use of SAKIP in a diagnostic control system is positively associated with an organisation's orientation to learning.*
>
> *H6b: The emphasis ILGs place on the use of SAKIP in an interactive control system is positively associated with an organisation's orientation to learning.*
>
> *H6c: The emphasis ILGs place on the use of SAKIP in an interactive control system is positively associated with the emphasis they place on the use of SAKIP in a diagnostic control system.*

3.9   Institutional Theory

Institutional theory has been widely used to understand the process of change in organisations (Ashworth et al., 2009; Pilcher, 2011). It focuses on the process by which

routines, norms, rules, and structure become accepted guidelines for social behaviour (Scott, 2014). It is concerned with the contribution of the external environment, such as social, political and cultural factors, to shaping organisational form and process (DiMaggio and Powell, 1983; Meyer and Rowan, 1977; Ruef and Scott, 1998; Scapens, 2006). Meyer and Rowan (1977) added that organisations can gain social legitimacy by maintaining a good relationship with the external environment. Social legitimacy can be secured by accepting taken-for-granted practices and structures and thus conforming to the environment's cognitive and normative demands. Conformance to institutional demands in the organisations' environment is believed to drive structure and practice similarities among organisations operating in the same organisational field, known as institutional isomorphism (DiMaggio and Powell, 1983).

The development of institutional theory has led to a distinction between old institutional economics (OIE) and new institutional sociology (NIS). New institutional sociology proposes that organisations within the same field face competing institutional demands. At the same time, institutions surrounding organisations provide and encourage stability. Such institutional forces are reflected in the prevailing ideas, beliefs, and values within the organisational field. Therefore, organisations choose to appear similar to others in order to maintain their legitimacy and to avoid disruption to their main focus of achieving their goals (DiMaggio and Powell, 1983; Meyer and Rowan, 1977). The adoption of SAKIP by almost all ILGs can be investigated across Indonesian local governments. On the other hand, the original institutional economics (OIE) proposes that the institutions' interpretation of the institutional pressures surrounding the organisation and transformation into organisational practices will be different from one organisation to another (Delmas and Toffel, 2004). Human actions and routines are one major factor that shape institutions. At the same time, the rational choices and patterns of action adopted by groups of individuals can be influenced by the prevailing institutions which govern organisational activity (Scapens and Burns, 2000).

Despite the distinction between the NIS and OIE, this study will combine characteristics from both theories (DiMaggio and Powell, 1983; Greenwood and Hinings, 1996; Meyer and Rowan, 1977; Munir and Phillips, 2005). Brignall and Modell (2000); Tsamenyi, Cullen, and González (2006) argued that the process of conforming to institutional

pressures is not always passive. Organisations may actively resist through the interaction between broader environmental dynamics and intra-organisational processes (Tsamenyi et al., 2006). Brignall and Modell (2000) determined that organisations are able to provide a balanced and integrated multidimensional performance measurement system to manage conflicting stakeholder interests. Arnaboldi, Azzone, and Palermo (2010) suggested that it is important to mobilise various dimensions of power during a managerial innovation. It is also essential for organisational actors and key individuals to be able to understand the meaning of the proposed system and to communicate it throughout the organisation. Therefore, the process of conforming to institutional pressures will depend on the context of an organisation, including the informal structure, network of actors, internal powers operating within the organisation, and the actions of individuals within the field (Broadbent and Laughlin, 2005; DiMaggio and Powell, 1983; Johnson, Melin, and Whittington, 2003; Oliver, 1991; Scapens, 2006; Scapens and Burns, 2000).

The study will emphasise the new institutionalism concept that suggests the process of institutionalisation starts in the field level that leads organisations to become similar to others located within the same field. At the same time, the study will include the OIE concept by recognizing organisational actors who take a role as institutional entrepreneurs as their reaction to the ongoing institutionalisation process. Therefore, institutional theory is considered to be an ideal theory to understand change processes as ILGs implement SAKIP as their new management control system. The research questions will explore (1) how SAKIP can be a common MCS practice in ILG at this time; (2) the different motivations and scenarios behind the adoption; and (3) how regulations are being utilised and ILG managers are involved to support the SAKIP adoption. Institutional theory is also drawn on to make case-specific contributions to the literature[17].

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[17] Another social theory that also has been used to study management accounting change is structuration theory (Giddens, 1984). The theory provides a conceptual linkage between action and institutions (Scapens and Varoutsa, 2010). Structuration theory views that structure (institution) is "a product of and a constraint on human action"(Barley and Tolbert, 1997, p. 5). Similar with OIE, structuration theory argues that institutions influenced actor behaviour through an internalisation process of prevailing norms and regulations (Scapens and Varoutsa, 2010). When an actor behaves according to a patterned behaviour, institutions are reproduced (Bjorck, 2004). Both theories acknowledge that institutions may occur through recurred interactions within organisations. Despite some similarities, this research utilises institutional theory because it is more difficult to develop an empirical model using structuration theory

3.10 Institutions

There have been several definitions of institutions. Some scholars emphasise the functionality of institutions in the process of institutionalisation, while others focus on the main attribute of institutions as quasi-rules within the field. This section will focus on key definitions of institutions in order to set a context for subsequent discussion.

Institutions are defined as "shared rules and typification that identify categories of social actors and their appropriate activities or relationships" (Barley and Tolbert, 1997, p. 96). Meyer and Rowan (1977) described institutions as templates for organisations to endeavour to secure legitimacy. Institutions are created and maintained through interactions between organisations and their surrounding environment. Furthermore, Meyer and Scott (1983, p. 84) referred to institutions as the "rules, norms and ideologies of the wider society". Zucker (1987) argued that institutions can bring common understandings of appropriate and meaningful behaviour. DiMaggio and Powell (1991) defined them as rules, laws, customs, procedures, norms, culture, and ethics that synchronise organisational actors' actions. On the other hand, institutions are also viewed as social structures with rule-like factors that drive the process of isomorphism and provide stability. Scott (2014, p. 33) described institutions as "social structures that have attained a high degree of resilience. Institutions are composed of cultural-cognitive, normative, and regulative elements that, together with associated activities and resources, provide stability and meaning to social life".

Since institutions govern and shape the behaviour of individuals, they also influence the process and structure of an organisation as a response to the dynamic within the institutional environment (Kherallah and Kirsten, 2001). Furthermore, organisational behaviour is affected by intra-institutional pressures and external environmental pressures (DiMaggio and Powell, 1983; Meyer and Rowan, 1977; Scott, 2014). Individuals and organisations can respond to environmental pressures by conforming to norms in order to earn the legitimacy, resources, and survival capabilities necessary for their operation (Scott, 2014).

(Whittington, 2015). On the other hand, institutional theory has been empirically used in observing the isomorphic pressures in the diffusion of new practices or programs among organisations (Aurini, 2006; Cavalluzzo and Ittner, 2004; Pilcher, 2011). Institutional theory also has had a major impact on different research fields within the social sciences.

3.11 Rationalised Myths and Legitimacy

In the context of institutional theory, rationalised myths can be described as institutionalised products, services, techniques, norms, or standards that are transmitted and shared without question by organisational actors (Pettersen, 1995; Svejvig, 2013). Organisations conform to rationalised myths in order to be considered as proper and rational organisations that conduct meaningful behaviour (Boxenbaum and Jonsson, 2008). Meyer and Rowan (1977) argued that many elements of formal structure in bureaucracies function as myths that operate to display responsibility and avoid claims of negligence. The main characteristics of rationalised myths are that they specify numerous social purposes as impersonal technical matters and work in some measure beyond the discretion of any individual participant or organisation. Through complex interaction among organisations, rationalised myths can be codified into formal regulations, law, organisational structures and process. They are taken for granted as legitimate regardless of their real impact on work outcomes (Meyer and Rowan, 1977). When organisations conform to rationalised myths, they appear to be rational and signal their ability to conduct their business appropriately; thus they gain legitimacy from their constituents (Boxenbaum and Jonsson, 2008; Meyer and Rowan, 1977; Svejvig, 2013).

Legitimacy refers to the extent to which an organisation has to conform to requirements from various internal and external stakeholders in order to gain approval from society (Deephouse and Suchman, 2008; Kostova, Roth, and Dacin, 2008; Sonpar, Pazzaglia, and Kornijenko, 2010). Scott (2010) describes legitimacy as a symbolic value to be displayed to external stakeholders. At the same time, it shows the level of cultural support for an organisation (Meyer and Scott, 1983).

By accepting rationalised myths of generally accepted structures or procedures, organisations retain a defence against the perception of irrationality, avoid social criticism, minimise demands for external scrutiny, and thus improve the survival capabilities for their operations (Meyer and Rowan, 1977; Scott, 2013). Meyer and Rowan (1977, p. 358) proposed that "the more an organisation's structure is derived from institutionalised myths, the more it maintains elaborate displays of confidence, satisfaction and good faith, internally and externally". The interaction occurring in the

process of accepting rationalised myths provides organisations with legitimacy among others within the organisational field. Suchman (1995, p. 574) defined legitimacy as:

> *"a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions."*

Legitimacy provides organisations with opportunities to maintain their status and reputation through their visibility, credibility, and mobility (Deephouse and Suchman, 2008). Modell (2001) postulated legitimacy is affected by coercive and normative institutional pressures. Besides legitimacy-seeking, institutional theory also views organisational responses as also embedded in the prevailing values and beliefs from the organisations' environment. This process of the environment affecting and pressuring organisations to comply with its demands is an ongoing political process.

3.12 Embedded Agency

Embedded agency is a concept in institutional theory that views individuals' and organisations' decisions and actions as highly influenced by their surrounding environment. They are framed within and have become part of a web of socially constructed, taken-for-granted prescriptions of appropriate conduct (Scott, 2013). They are shaped by prevailing cultural elements, such as norms, values, beliefs and taken-for granted assumptions. These cultural elements also take on a rule-like status to define appropriate organisational form and behaviour (Carpenter and Feroz, 2001; Garud, Hardy, and Maguire, 2007). They define and guide actors' position in social relationships (Barley and Tolbert, 1997).

In the case of SAKIP adoption and implementation, ILGs are also not free from the influences of their surrounding environment and embedded cultural elements. Even though decentralization and autonomy have significantly changed the Indonesian governmental system, the cultural elements from the centralised era are still strongly present in government agencies in Indonesia. As a result of long-standing traditions and strong cultural norms from 32 years of a "command and control" regime, Indonesian local government agencies still suffer from classic bureaucracy pathology such as slow responses due to passively waiting for more directions from central governments, and high levels of corruption, inefficiency, and informality (Dwiyanto, 2011; Mimba et al.,

2007). Mimba et al. (2007) described informality in public organisations as a gap between the formal and actual activities of the organisations. These environmental and embedded cultural elements may become important isomorphic factors in the implementation of NPM-like management innovation such as SAKIP in ILGs.

3.13 Isomorphism

Institutional theory examines the isomorphic process that leads organisations to become similar in structure and procedures to other organisations (Oates, 2013). Organisations tend to adapt to meet society's expectations by following institutional norms specific to an organisational field (Boxenbaum and Jonsson, 2008; DiMaggio and Powell, 1983; Oates, 2013). Arnold, Kozinets, and Handelman (2001) described institutional norms as family, community, religion, and other complex cultural systems that shape organisational action by deciding appropriate and taken-for-granted social conducts. Meyer and Rowan (1977) and Scott (2013) claimed that regulations imposed by governing agencies are much stronger institutions than belief systems, practices, and norms, since failing to conform to their demands can bring serious consequences to an organisation. Since organisations situated within the same organisational field also interact in a similar environment, they gradually adopt similar techniques and become isomorphic in order to secure legitimacy and be perceived as more successful (Boxenbaum and Jonsson, 2008; DiMaggio and Powell, 1983; Kostova et al., 2008; Meyer and Rowan, 1977; Oates, 2013). By adopting socially accepted structures or procedures, organisations that belong to an organisational field accommodate pressures from their institutional environments in order to be viewed as making appropriate organisational choices (Carpenter and Feroz, 2001).

DiMaggio and Powell (1983, p. 148) described an organisational field as consisting of "organisations that, in aggregate, constitute a recognised area of institutional life". Organisations are more inclined to copy similar organisations within the field that they perceive to be more legitimate or successful. The term isomorphism refers to the institutional ability to exercise a constraining influence over organisations. Isomorphism drives organisations in the same population to resemble other organisations facing similar environmental conditions without necessarily making the organisations more

efficient, thus leading to the process of institutionalisation (Ashworth et al., 2009; DiMaggio and Powell, 1983).

DiMaggio and Powell (1983) described three major types of institutional isomorphism: coercive, mimetic, and normative. Coercive isomorphism usually derives from political influence with both formal and informal pressures coming from other organisations (Akbar et al., 2012; DiMaggio and Powell, 1983; Hawley, 1944; Kanter, 1972; Tsamenyi et al., 2006). At the organisational level, coercive pressures may come from governing organisations such as regulatory bodies and central government agencies (Shi et al., 2008). Such external organisations are able to establish rules, monitor compliance, provide recognition, and apply sanctions (Darnall, 2006; Trevino, Thomas, and Cullen, 2008). Coercive isomorphism can also be imposed by cultural expectations of the larger society (DiMaggio and Powell, 1983; Tsamenyi et al., 2006).

In the context of SAKIP, regulations issued by central governments have been the source of coercive pressures. Even though ILGs have been given greater autonomy in managing their affairs under the decentralization regime, multiple central government agencies are still able to inflict strong coercive pressures, especially for monitoring and controlling purposes. The central agencies often use the cross-departmental regulatory framework to bring their agenda and influence ILG behaviour. This approach is very effective since most ILGs are still dependent on central government funding, known as an allocation fund. For example, the Ministry of Finance (MOF), MOHA and the Agency for National Development and Planning (Kementrian PPN/Bappenas) issued a series of regulations that require ILGs to provide them with budgets figures, operational outcomes, and annual performance reports on a timely basis for monitoring purposes. By adhering to the regulations, ILGs maintain their legitimacy and build their image as organisations that properly plan and allocate their resources. In the case of SAKIP, the MSAEBR constantly issues regulations and guidelines that are intended to encourage the use of SAKIP.

Mimetic isomorphism occurs when an organisation seeks some degree of acknowledgment by imitating best practices from organisations perceived to be more legitimate or successful (DiMaggio and Powell, 1983; Tsamenyi et al., 2006). The

pressure drives the mimicking organisations to view practices or structure exercises in high-status organisations as best practices and to copy them. Two factors that drive mimetic isomorphism are uncertainty within the environment and a lack of leaders' ability to provide guidance (Kasperskaya, 2008; Kostova and Roth, 2002).

By consciously copying the practices of leading organisations, an organisation is associating itself with culturally accepted activities and practices; and hoping to attain similar successful outcomes (Scott, 2013; Trevino et al., 2008). Mimetic isomorphism reflects the cognitive structures, perceptions or symbolic systems shared among organisations within the same field (Scott, 2013). These cognitive structures also influence organisations' ability to identify and categorise events in their environment and to decide what actions are expected to respond to them (Kostova, 1999). Every year the MSAEBR publishes the results of SAKIP evaluation and gives awards to agencies, including local governments, that reach the highest grade. This mechanism provides opportunity for ILGs to imitate others perceived as having successfully implemented SAKIP.

Normative isomorphism occurs mainly from professional groups through formal and informal communication (DiMaggio and Powell, 1983). Professional groups such as educational or professional networks have been acknowledged as the major area where values are instilled, thus generating normative pressures. They can foster organisations to apply some pattern of structure considered appropriate in the environment (Kostova and Roth, 2002).

The process of normative institutionalisation is derived from values, beliefs, social expectations and norms practiced by professional members of the society (DiMaggio and Powell, 1991; Kostova, 1997, 1999; Scott, 2013). Social actors rooted in a professional association tend to unconsciously imitate new structure and process when the new practices have been widely used by many actors in the field. When some activities are seen as professional best practices, organisations will voluntarily adopt and view them as normative expectations and guiding behaviour (Shi, Narcissus, and Jian, 2008). DiMaggio and Powell (1983) argued that a workforce with university degree qualifications may lead to isomorphism among organisations within the same field.

Akbar et al. (2012) stated that the growing number of ILG employees and officials with higher degrees from universities has contributed to the wider use of key performance indicators in ILGs.

The institutionalisation process typologies can help the thesis in developing a theoretical case regarding simultaneous isomorphism behind the adoption of SAKIP in ILGs. In order to describe the process of an institution in shaping organisations' behaviour, previous research generally groups the process of isomorphism in an institutional environment into three main categories: (1) coercive isomorphism, as reflected in governmental policies and regulation; (2) mimetic isomorphism, as reflected in widely shared social knowledge; and (3) normative isomorphism, as reflected through developed value systems within the society (Kostova, 1997; Trevino et al., 2008).

3.14 Organisational Strategic Responses to Institutional Pressures

As entities deeply entangled with institutional requirements, public organisations face multiple pressures and institutional demands from diverse stakeholders. These stakeholders can suggest diverse and possibly conflicting prescriptions of legitimate behaviour and beliefs (Lounsbury, 2007; Thornton and Ocasio, 2008). Scott (2013) argued that in order to maintain their legitimacy, public organisations have to meet pressures from the environment by meeting all the requirements and focusing on performing socially accepted attitudes.

The pressure to be viewed as accountable and proper have driven public organisations to: (1) provide additional explanations in order to justify their actions to the public, (2) exercise additional practices in order to win public opinion, and (3) use socially driven criteria of performance. For example, the current president of Indonesia, Joko Widodo, had to ask a perceived "clean" organisation – the corruption eradication committee's (KPK) – to perform background checks on candidates for his new cabinet member. A background check by an independent institute institution such as KPK is intended to give the impression of clean government, to win the public's confidence and gain legitimacy from the general public.

Secondary to conforming to environmental pressures, public organisations also face pressures to be effective and efficient. Indonesian government agencies respond to these

pressures by incorporating various performance reports in their activities. Since 1999, Indonesia has embraced the concept of NPM to reform the public sector (Harun and Robinson, 2010). Organisations that were considered authoritarian with a lack of good governance systems are now required to provide greater transparency in government transactions and clearer accountability for program results (Rhodes et al., 2012). Akbar et al. (2012) view accountability and performance measurement as two essential elements of NPM in public sector reform.

When facing multiple and sometimes conflicting demands from diverse stakeholders, public organisations are required to be able to respond strategically. Meyer and Rowan (1977) argued that besides managing internal demands, organisations working in an institutionalised environment, such as government agencies, also have to manage the ceremonial demand from the environment. DiMaggio and Powell (1983) claimed that organisations are aware of this situation when they follow prevailing institutional scripts and cognitive frames. However, the lack of tangible motive in public organisations' evaluation methods, such as profit in their private counterparts, may hinder them from achieving the intended goals of such reforms. In their research about management and accounting system changes in a Malaysian public utility, Siti Nabiha and Scapens (2005) argued that new systems and reports do not necessarily lead to better user behaviour and performance. DiMaggio and Powell (1991) suggested that public organisations are more willing to focus on gaining legitimacy and good social fit than achieving the technical and economic efficiency required by their environment. The drive to gain legitimacy over efficiency has led to opacity in public organisations' expected actions and outputs. The focus on institutional compliance can also weaken management's ability to track causal relationships between budgets, processes, goals, standards, and technologies used (Fernández-Alles and Llamas-Sánchez, 2008). Even though adopting such myths may bring organisations better survival possibilities, it will not necessarily turn a public organisation into an effective and efficient unit (Aurini, 2006; Meyer and Rowan, 1977; Rhodes et al., 2012).

When organisations find institutional demands that are not compatible with other prevailing institutions or are conflicting with organisational internal objectives, Oliver (1991) suggested five institutional factors that affect organisational strategic responses to such demands:

a. *Cause*

Cause refers to factors driving an organisation to conform to institutional expectations. Such factors can be a rational motive − i.e., to be effective and efficient organisations − or a legitimation motive − i.e. to submit to rules and stakeholder expectations. The implementation of SAKIP is intended to oversee the achievement of all levels of government agencies (Rhodes et al., 2012). However, Akbar et al. (2012) found that performance indicators in SAKIP are developed more to submit to regulatory requirements.

b. *Constituents*

Constituents refer to various actors such as state, professions and other interest groups that create institutional pressures. ILGs have diverse constituents, including central government agencies, parliament, media, users of services, and the general public. The most influential constituent for ILGs is the MSAEBR. The MSAEBR has been playing an active role in promoting, regulating, and evaluating SAKIP implementation in ILGs.

c. *Contents*

Contents refer to the nature of the norms or requirements to which organisations are required to conform. Similar to public organisations' content characteristics described by Fernández-Alles and Llamas-Sánchez (2008), there are not many opportunities to dispute the regulation from the central government agencies in Indonesian bureaucracy. As a result, ILGs are under pressure to comply with SAKIP regulations issued by the MSAEBR.

d. *Control*

Control refers to mechanisms used to exert institutional pressures. SAKIP is implemented by strong coercive pressures through a series of regulations and guidelines issued by the MSAEBR. By evaluating SAKIP reports yearly and publishing their grades, the MSAEBR creates a sense of attestation to the implementation of SAKIP.

e. *Context*

Context refers to the environmental uncertainty and inter-relationships among actors in the organisational field where institutional pressures are being exercised. Some of the institutional contexts that can shape ILGs' response to the pressures to adopt SAKIP are as follows:

e.1. A dominant paternalistic culture in Indonesian bureaucracy. Indonesia has moved dramatically from three decades of totalitarian and highly centralised government under Suharto into democratic and decentralised government. During Suharto's reign, a strong paternalistic culture and excessive rigid procedures were well-cultivated in the Indonesia bureaucracy (Dwiyanto, 2011). The agencies' self-initiatives were not the main feature within the bureaucracy. On the other hand, the culture of "waiting for further directions from higher level organisations" – in most cases central government agencies – was common. Such cultural traits still prevail in ILGs despite the deeply decentralised system that is now in place.

e.2. Strong central government influences and control on local government operations. In addition to cultural factors, several areas in ILGs are still controlled and monitored by central government. For example, all government employee recruitment is controlled by two central government agencies: the MSAEBR and the State Civil Servant Administration Agency. Indonesian Local Governments also still rely on allocation funding from the central government to finance their operations. Rhodes et al. (2012) and Pepinsky and Wihardja (2011) reported that the overlapping authority and lack of coordination among several Indonesian central agencies in imposing monitoring and control on ILG performance have created confusion among ILGs. The requirement to report similar things in a different format may create confusion and shape ILGs' response to the accountability demands.

Scott (2013) argued that organisations possess a greater opportunity to comply with the demands in an ambiguous institutional environment. Gutierrez Rincon (2014) noted that organisational conformity to certain institutional demands may create inconsistencies with other institutional arrangements.

When facing multiple institutional demands, some organisations may respond by meeting the demands and changing their behaviour, while others only perform ceremonial conformance and at the same time still pursue their original technical objectives (Fernández-Alles and Llamas-Sánchez, 2008). Since organisations are subjected to conflicting demands, they can only conform to some of them and have to ignore others. Institutional theory argues that the conflicting nature of institutional

demands and the limited capacity of organisations to respond tend to reduce diversity in organisational policy and management practice (DiMaggio and Powell, 1991; Fernández-Alles and Llamas-Sánchez, 2008).

Besides conforming to or resisting environmental pressures, organisations are also capable of strategically responding by modifying institutional scripts to align with their organisational characteristics (Aurini, 2006). Innovation in public organisations often borrows techniques from different countries. Meyer (2008) stated that rationalised myths can travel and be implemented in countries that have diverse and sometimes contradictory environments to where the myth originated. Aurini (2006, p. 83) found that organisations can actively shape legitimation by "engaging in strategic isomorphism and responding to new pressures in the technical environment". Organisations are able to collect, align with, and adopt myths into their structure in order to bring benefits for themselves. By complying with existing institutional scripts, public organisations gain confidence and space to operate with minimal organisational oversight. In their research that studied the implementation of accrual accounting systems in Indonesia's public sector, Harun et al. (2012) emphasised the importance of understanding the organisational and social context in analysing the adoption of a new managerial innovation.

The Indonesian decision to join the growing trend of developing countries that embrace managerial control into a bureaucratic environment under the jargon of "reform" shows the development of NPM as the new rationalised myth in public organisations. After the political and financial crisis in 1998, adopting a new managerial control, such as SAKIP, is seen as bringing legitimacy to its adopters. In order to diffuse SAKIP practices, the central government issues regulations that require all governmental agencies, including ILGs, to adopt and implement SAKIP in their activities. These coercive pressures establish institutional scripts that shape ILGs' organisational structure and actions in order to gain confidence from their environment. The adoption of SAKIP may improve the ILGs' chance of survival by presenting the image of a competent organisation and reducing the justification for central government agencies to conduct additional scrutiny. At the same time, the central government uses the adoption and implementation of SAKIP as one major factor in evaluating ILG performance.

3.15   Utilising Institutional Theory

This study employs a deductive reasoning approach to investigate the relationship between pressures surrounding the adoption of SAKIP; the use of SAKIP; and SAKIP's impact on ILGs' organisational learning capabilities. Smith (2011) stated that deductive reasoning begins by employing a theory, followed by observations, and ends by proposing predictions to be verified by subsequent observation. The study employs institutional theory as a framework of concepts that are enriched through the collection of empirical data. It is used to understand the relationship between "organisational structures and the wider social environment" (Tsamenyi et al., 2006, p. 412). Institutional theory is suited to explain the powers that influence individuals and organisational behaviours within social structures (Broadbent and Laughlin, 2005). It further holds that organisations attempt to accommodate internal and external pressures to build their image in accordance with a set of society's rules and expectations (Kasperskaya, 2008). Institutional theory is used in this study because it has been used in empirically observing the isomorphic pressures in the diffusion of new practices or programs among organisations (Aurini, 2006; Cavalluzzo and Ittner, 2004; Pilcher, 2011). Previous research in the implementation of new accounting and management systems has brought diverse institutional analysis concepts, such as stability, conformity, isomorphism, or power that enrich research perspectives in exploring and explaining a process of change (Arnaboldi et al., 2010). Institutional theory has been used to identify and explain the source of isomorphism; the interplay between institutional and technical environment; and the response from organisational actors. Institutional theory was also developed to understand norms, rules, and symbols to which organisational actors need to conform to legitimise their existence (Brignall and Modell, 2000; Tsamenyi et al., 2006).

Institutional theory will be used to explore the interaction between ILGs and their institutional environment. Despite multiple and possibly conflicting pressures emerging from the environment, an organisation is still driven to become similar to other organisations in its field (DiMaggio and Powell, 1983). Modell (2012a) showed that institutional theory is useful in seeing how coercive pressures from regulation can create new agendas and objectives that can influence organisational process and structure. By observing the institutional environment, institutional theory can explain the

institutionalisation of new managerial innovation, such as SAKIP, at the organisational field level. When new managerial innovations meet the expectations of acceptable practices where organisations need to conform to them, institutional theory argues that these organisations will include the new innovations in the institutional prescription and, over time, accept them as normal and expected in everyday society (Ma and Tayles, 2009; Norhayati and Siti Nabiha, 2009). Institutional theory allows for analysing the dynamics of power and politics in the implementation of innovations. Ma and Tayles (2009) explored the different factors of intra-organisational dynamics in the transformation process of strategic management accounting operations in a pharmaceutical company.

Institutional theory is also useful in describing factors that lead organisations to fully or symbolically use new managerial innovations as their response to meeting demands from various groups of stakeholders (Tillema, Mimba, and Van Helden, 2010). Ma and Tayles (2009) noted that internal stakeholders are also instrumental in shaping the power and status within an organisation that may not be consistent with external demands. By including the interests and power of different stakeholders in the analysis, institutional theory offers some perspectives that are typically lacking in the rationally based research on management accounting innovation (Ma and Tayles, 2009). The theory also includes legitimacy in the observation and views it as the result of organisational activities in fulfilling rationalised myths by delivering appropriate responses.

Within public sector accounting and management research, institutional perspectives have been successfully used to explore the socially constructed process of adopting a new system (Furusten, 2013). The development of institutional research confirms that the adoption of new management practices is not solely dependent on economic efficiency. It also depends on cultural and political processes to maintain and achieve legitimacy (Pilcher, 2011). The concepts discussed in this chapter will be used to develop the research instruments and explain the research findings. The findings will be applied in the discussion chapter to construct specific contributions to the literature. The objective is to examine the adoption of SAKIP in ILGs, and the relationship between the use of SAKIP and ILGs' organisational learning capabilities, by employing a framework driven by institutional theory. In summary, institutional theory is suitable

and justified to explain phenomena of Indonesian local government management accounting reform, where ILGs need to conform to expectations of acceptable practices.

3.15.1 Prior studies on institutional theory and management control systems

There has been a significant body of literature that explores the adoption of new MCSs through the lens of institutional theory. Arnaboldi et al. (2010) studied the adoption of managerial innovations in the Italian public sector. Institutional theory is used in their case study to understand factors influencing the use of new managerial innovations. They found the importance of mobilizing various dimension of power during a managerial innovation. It is also essential for organisational actors and key individuals to be able to understand the meaning of the proposed system and to communicate it throughout the organisation. Failure to make sense of new managerial practices may lead to technical shortcomings, such as inadequate information systems, confused planning, and lack of commitment and shared objectives. It may also lead a managerial innovation to fail or evolve into another form of formality.

Modell (2008) examined the evolutional process of the interaction between strategic management accounting and management control practices in shaping strategy formation in a Swedish central government agency. That study is mainly based on empirical research and archival data related to governance reforms in the Swedish government. Institutional theory is employed to explain the contribution of external and political regulations to cultivate consequences and impacts on organisational practices. Modell (2012b) found that government agencies tend to comply with institutional pressures exercised by dominant constituents. Changing institutional pressures and actions from diverse organisational actors have caused agencies to closely link their strategy with government regulations. As a result, the meaning of the agencies' strategy has been narrowed.

Kasperskaya (2008) conducted a comparative study in the implementation of a new managerial model in two Spanish city councils. Kasperkaya (2008) found that new managerial innovations have a greater chance of getting managerial acceptance when the innovations are flexible and linked with the organisation's current practices. When experiencing pressure to change, organisations may use different tactics even though

they are facing similar stimuli. Kasperskaya (2008) concluded that efficiency and legitimacy were the main reasons for the city councils to adopt the new model.

Ma and Tayles (2009) conducted a case study to explore the process of management accounting change and the adoption of strategic management accounting in a medical technology company. The study employed institutional theory to investigate the relationship between organisational contexts and organisational actions during the process of management accounting change. It found that strong external pressures from the organisation's environment did not necessarily create similar management accounting changes across similar organisations. Institutional theory suggests that diverse interests within an organisation and repositioning key actors are also important factors in the successful adoption of new strategic management accounting.

3.16   Summary

Institutional theory is the foundation of the theoretical framework in this study. The factors that can influence the adoption and utilisation of SAKIP by ILGs and how it may impact ILGs' ability to learn are demonstrated in a theoretical schema. The factors hypothesised as predictors of the adoption of SAKIP are external pressure, internal pressure, facilitator, and barriers. The size and location of ILG that could also impact the adoption and utilisation of SAKIP are considered as control variables. The hypotheses that will be investigated in the survey and interviews stages are presented in this chapter.

The theoretical framework discussed in this chapter guides the subsequent research processes: research methodology (Chapter Four), quantitative result and analysis (Chapter Five), qualitative results and analysis (Chapter Six), and discussion of the results (Chapter Seven).

Chapter 4: **Research Methodology**

4.1   Introduction

The purpose of this chapter is to describe the research approaches, design and methodology used to collect and analyse the data in this study. The chapter is organised into six sections. The next section 4.2 briefly explains the research design adopted in this study. It also describes the justification for selecting local government senior officers (SO) and other senior executives as the questionnaire survey respondents and semi-structured interview participants. Section 4.3 discusses the different stages of questionnaire development and distribution. The section also describes the statistical methods used to analyse the quantitative data. Section 4.4 discusses the qualitative part of the research, including the procedures used to determine interview participants, the design of the interview, and the evaluation of the results. Section 4.5 presents ethical considerations taken into account in both quantitative and qualitative data collection. Finally, section 4.6 summarises the chapter.

4.2   Research Method

This thesis is conducted under the pragmatist research paradigm. A paradigm affects the study and interpretation of knowledge gained from a research (Guba and Lincoln, 1994). The pragmatist research paradigm combined features from the two most prevalent research paradigms in accounting research, the positivist and interpretivist research paradigm. Ontologically, the proponents of positivism view a phenomenon as a reality that should be independent from the researcher. At the same time, the proponents of interpretism underline the construction of social reality through human interactions that bring multiple perspectives. Epistemologically, positivist gains knowledge by applying a deductive approach to measure phenomena and generalise inferences whilst interpretivist acquires one by relating with the social interaction within a phenomenon. Methodoligically, positivist utilises a deductive approach to study the reality assumptions by: (1) analysing quantitative data; (2) formulating a hypothesis; and (3) testing its reliability and predictability (Bryman, 2012; Denzin and Lincoln, 2011). Typicaly, positivist uses a survey as an instrument to collect data and deduce inferences. Interpretivism paradigm requires researchers to: (1) listen to research participants'

perception obtained from interviews, (2) actively interpret a process within a social phenomenon and (3) continue open for different viewpoint (Leppäaho, Plakoyiannaki, & Dimitratos, 2015).

The thesis adopted a mixed-methods approach by incorporating elements of both quantitative and qualitative research. Creswell, Plano Clark, Gutmann, and Hanson (2003, p. 212) described mixed-methods research as "the collection or analysis of both quantitative and/or qualitative data in a single study in which the data are collected concurrently or sequentially, are given priority, and involve the integration of the data at one or more stages in the process of research". The quantitative element will be performed through a questionnaire to investigate the relationship among MCS adoption, utilisation and other variables; and to explain the extent and nature of relationships in research variables (Van der Stede, Mark Young, and Xiaoling Chen, 2006). The qualitative research will be used to examine inconclusive questionnaire findings and to validate the measurement of constructs (Bobe, 2012).

The combined qualitative and quantitative approach, known as mixed-method research, is used because the quantitative research is able to expose causal relationships among events and observed variables but is not fully able to provide further insight – such as motivational aspects or institutional pressures – involved in the causal relationship (Plano Clark and Creswell, 2007).

The mixed-method approach has gained increasing recognition in empirical management accounting research for the following reasons. First, combining both methods will provide a better understanding of a research issue (Creswell and Plano Clark, 2011). Second, employing the qualitative approach will provide a more holistic contextual understanding of the survey and explain inconsistencies raised from the survey results (Modell, 2005). The qualitative method can provide an insider's perspective on the outcomes found by the quantitative method. Third, triangulating quantitative and qualitative methods can enhance the validity of the research and minimise the biases inherent to any single method (Modell, 2005). Therefore, the approach of establishing quantitative methods complemented with elements of qualitative methods can improve the credibility of results, since the strengths of one approach counterbalance the weaknesses of the other (Modell, 2005). In order to answer

the research questions (RQ 1 to RQ 4), this thesis used the quantitative data collected by a nation-wide survey. The quantitative findings were followed up through in-depth interviews with local government senior officials, senior officials from the MSAEBR, and government auditors.

4.3 Phase 1: The quantitative stage

This research initially used the term LAKIP in the research proposal and survey questionnaire to refer to both the performance report and the management control system in ILGs. The main reason was because the regulations and guidelines prior to PR No.29/2014 did not provide a clear distinction between the two. For example, when the MSAEBR evaluated the agencies' LAKIP report, they focused both on the content of the report and on the implementation of the system. In the research proposal, the explanation regarding the use of LAKIP as the system was provided. In the questionnaire, the term LAKIP was used to describe the report (stating as = LAKIP report) and the system (stating as = LAKIP system) in the questions. In the pilot study of the survey instruments, the use of LAKIP that refer to the system was clarified. The survey was conducted in the beginning of 2014 before the PR No.29/2014 that clarifies the role and purpose of SAKIP system for government agencies was issued. The rest of this thesis will only use SAKIP when it refers to the management control system in ILGs.

4.3.1 The questionnaire survey

The main objectives of the survey were to:

- Investigate the adoption of a centralistic management control system (LAKIP/SAKIP) by local governments in Indonesia (RQ1);
- Examine the relationship between the diagnostic and interactive use of LAKIP/SAKIP and organisational learning in ILGs (RQ2);
- Establish a framework for adopting and implementing a management control system (MCS) in the public sector to facilitate effective practice (RQ4);
- Recruit voluntary participants from ILGs for a further data collection process (interview in phase two of the study).

The questionnaire was comprised of the following three sections:

1. Section A: Performance reports produced and used in ILGs.

This section included seven questions relating to the type of performance reports

produced and used by ILGs.

2. **Section B: Independent and dependent variables.**

This section of the questionnaire consisted of 81 questions that were grouped into 8 major constructs:

Construct 1. External Pressures
Construct 2. Internal Pressures
Construct 3. Facilitator
Construct 4. Barriers to Change
Construct 5. Adoption
Construct 6. Diagnostic Use of SAKIP
Construct 7. Interactive Use of SAKIP
Construct 8. Organisational Learning

The questions for the constructs were developed from previous studies in the field of performance measurement and accountability in public sector organisations. The majority of the survey questions were adapted from questionnaires used by Upping and Oliver (2011) and Widener (2007). Some modifications to the original questions were made to adapt it to the context of this thesis. The questionnaire consisted of closed questions that measured responses on a five-point Likert scale.

3. **Section C: Demographics.**

This section included nine questions relating to demographic information about the ILG respondents. The purpose of section C was to provide information about: (1) the performance management preparer, (2) the type of the ILG, (3) Gender, (4) respondents study and training experiences, and (5) experience and length of service of the respondent.

4.3.2   The translation of the survey instrument

All the questions in the questionnaire were directly translated into Bahasa Indonesia. To ensure the accuracy of the translation, the questionnaire was reviewed by three Indonesian post-graduate students who studied at Curtin University prior to the pilot test. During the pilot testing, participants were also asked to verify the quality of the

translated questionnaire.

4.3.3   Pilot study of the survey instrument

The pilot study of the survey instrument was conducted with two accounting professors and five senior government audit officers for clarity, ambiguity, understand-ability, relevance and face validity. The survey instrument was tested to verify that the questions were valid, reliable and construed as planned. The pilot study also included discussion sessions. The information gained from the sessions is essential for obtaining valuable feedback and to ensure all necessary information for the survey would be captured. Minor changes in the expression of some items in order to correlate with ILGs' context and terminology were made based on feedback during those processes.

4.3.4   Distribution of the questionnaire

The population of this research was all ILGs, consisting of 530 ILG officers. A package containing the questionnaire, a cover letter, a participant information sheet, a consent form, and an endorsement letter was distributed to 33 provincial, 399 district and 98 city offices at the beginning of April 2014. Respondents were given four weeks to complete and return the survey for the following reasons:

1. The survey participants were located in a large and geographically dispersed area of 1,904,569 sq km with a population of 250 million.

2. Indonesia had a general election on April 9, 2014. Due to heightened political tension, horizontal conflicts between political supporters were common, especially in rural areas. Therefore, ILGs required more time to complete the questionnaire because their main priority at the time of the survey's distribution was to maintain the peace and security in their area of administration.

3. PT. Pos Indonesia was the only mail courier company that could provide service network to more than 17,000 islands throughout Indonesia. Therefore, the researcher relied solely on PT. Pos Indonesia's service for the distribution and return of the questionnaire.

4.3.5   Independent variable constructs

The main body of the survey comprised independent and dependent variable constructs.

Constructs 1 to 4 were independent variables adapted from Luder's model, as modified by Upping and Oliver (2011). The adapted model was used to identify internal and external factors that act as catalysts for, and influence the implementation of, accounting change in organisations. It incorporated motivators, barriers, and facilitators of change to better understand the likelihood and purpose of change. Upping and Oliver (2011) re-classified the variables into: (1) external pressures, (2) internal pressures, (3) facilitators of change, (4) barriers to change.

4.3.5.1 Construct 1: external pressures

The external pressures construct is a reflective construct. The construct was used to measure organisational factors that can shape the process of change. The construct consisted of six questions drawn from Upping and Oliver (2011) and modified to suit the local governments' context and the specifics of SAKIP-related regulations. Questions 2a, 2b, 2c, and 2e asked respondents to identify pressures from the external organisational environment, such as economic crisis, new regulation and political competition. Questions 2d and 2e asked respondents to identify pressures from external users of information. Questions in the external pressures construct were designed to test the hypothesis H1, which investigated the positive relationship between external organisational factors on an ILGs' decision to adopt SAKIP as tools to clarify, assess, and communicate program achievement.

4.3.5.2 Construct 2: internal pressures

The internal pressures construct is a reflective construct. The construct was designed to measure factors from within organisations that could lead to and motivate a change in the organisation (Upping and Oliver, 2011, 2012). Construct 2 of the questionnaire comprised 12 questions drawn from Upping and Oliver (2011) and modified to suit the ILG context and government-related regulations. Questions 3a, 3b, 3c, 3d, 3f, 3i, 3j, 3k, and 3l asked respondents to identify pressures from their internal organisational environment, such as attitudes towards change, consistency, system openness, budgetary pressures, change in key leadership positions, change in top management policy, or change in the power dynamics of the organisation (Upping and Oliver, 2012). Questions 3e, 3g, and 3h asked respondents to identify pressures from internal users of information, such as the mayor or the regent of an Indonesian local government.

Questions in the internal pressures construct were designed to test the hypothesis H2, which investigated the positive relationship between internal pressures and the adoption of SAKIP.

4.3.5.3 Construct 3: facilitators of change

The facilitators of change construct is a reflective construct. The construct was used to measure factors that bring direct influence on a successful change or reform. Construct 3 consisted of 13 questions drawn from Upping and Oliver (2011). All questions were designed to identify actors that allow the change to progress. Questions 4b and 4e asked respondents to identify people or organisations that foster the adoption of a new technique because they have a special interest in the targeted organisation. Questions 4a, 4f, 4g, and 4m asked respondents to identify bureaucratic actors responsible for providing financial and performance-related information to the users (Christensen, 2002; Upping and Oliver, 2011). Questions 4c, 4d, 4h, 4i, 4j, 4k, and 4l identified knowledge transfer elements that facilitate change, including training, seminars, publications, technology, and allocated staff resources. Questions in the facilitators of change construct were used in the testing of hypothesis H3. This hypothesis examined the positive relationship between facilitators of change and the adoption of SAKIP.

4.3.5.4 Construct 4: barriers to change

The barriers to change construct is a reflective construct. The construct was used to measure features of the public sector that hinder, delay, or prevent change (Upping and Oliver, 2011). Some examples of barriers of change are differences in value systems, insufficient commitment, lack of necessary knowledge and skills, or conflicting ethos (Upping and Oliver, 2011). Harun and Robinson (2010) defined barriers as features of political and bureaucratic environments that impede an initiative. Construct 4 consisted of 13 questions drawn from Upping and Oliver (2011). The questions in construct 4 were the opposite of those in construct 3. The questions in the barriers of change construct were used in the testing of hypothesis H4. This hypothesis examined the negative relationship between barriers of changes and the adoption of SAKIPs.

4.3.6 Dependent variable constructs

4.3.6.1 Construct 5: adoption of SAKIP

The adoption of SAKIP is a formative construct. The construct was designed to measure the extent of SAKIP implementation in ILGs; including the use of SAKIP to measure ILGs' programs and manage the results. The MSAEBR has issued a series of SAKIP guidelines that help ILG managers to not only clarify the purpose and intended results of a program but also to assess a program's intention and to communicate its achievements (Akbar et al., 2012). Construct 5 consisted of six questions derived from previous literature to measure the extent to which managers use tools, methods, and techniques available in an MCS to measure and manage performance (Bouckaert and Halligan, 2008; Li, 2008; Oliveira and Martins, 2011; Teo, Wei, and Benbasat, 2003). The questions in the adoption of SAKIP construct were used in the testing of hypothesis H5. This hypothesis examined the relationship between the adoption of SAKIP and its diagnostic and interactive use. The questions in the adoption of SAKIP construct were used in the testing of the hypotheses H5a and H5b. These hypotheses examined the relationship between the adoption of SAKIP and the diagnostic and interactive use of SAKIP.

4.3.6.2 Construct 6: diagnostic controls

The diagnostic controls construct is a reflective construct. This construct was used to measure the use of SAKIP to signal, communicate, and monitor the achievement of an ILG's critical success factors. Construct 6 consisted of 12 questions drawn from Widener (2007) and modified to suit Indonesia's context and government-related regulations. All questions asked respondents to identify the use of SAKIP in a single-loop learning where managers modify their actions in a way that does not result in fundamental change (Bisbe and Otley, 2004; Kloot, 1995).

4.3.6.3 Construct 7: interactive controls

The interactive controls construct is a reflective construct. The construct was designed to measure the use of selected measures in SAKIP by ILG managers in order to find out the strategic meaning and consequences of the measures (Tuomela, 2005). Construct 7 consisted of seven questions drawn from Widener (2007) and modified into Indonesia's context and government-related regulations. All questions asked respondents to identify

the use of SAKIP to improve the quality of strategic management and to increase commitment to strategic targets.

The questions in the diagnostic and interactive constructs were used in the testing of the hypothesis H6. This hypothesis examined the relationship between: (1) the diagnostic use of SAKIP and the organisation's orientation to learning; (2) the interactive use of SAKIP and the organisation's orientation to learning; (3) the interactive and the diagnostic use of SAKIP.

4.3.6.4 Construct 8: organisational learning

The organisational learning construct is a reflective construct. The construct was used to measure organisational ability to detect problems and determine solutions in a changing environment (Henri, 2006; Kloot, 1995). Construct 8 consisted of 12 questions drawn from López, Peón, and Ordás (2004) and modified into Indonesia's context and government-related regulations. Questions 9a, 9b, and 9c asked respondents to identify the ILGs' orientation to acquiring knowledge. Questions 9d, 9e, and 9f identified the ILGs' orientation to distributing knowledge. Questions 9g, 9h, and 9i asked respondents to identify the ILGs' orientation to interpreting knowledge. Questions 9j, 9k, and 9l identified the ILGs' ability to maintain organisational memory.

The variables measured by the questionnaire and the source of instruments used to measure them are summarised in Appendix 2.

4.3.7   Preliminary analysis of the questionnaire

The thesis conducted preliminary analysis of the questionnaire data prior to analysing the measurement model in order to minimise any distortions due to missing data, unengaged responses, and non-response bias. The more detailed procedures are described further below.

4.3.7.1 Data accuracy and missing data

The accuracy of the questionnaire data were maintained throughout the process of entering questioner information into the data set. Any missing and extreme values were reviewed and corrected accordingly. Furthermore, the pattern of missing values was examined and any missing values from independent and dependent variables were

imputed with the median value of the corresponding construct. The review of the data found 14 missing data at random from four respondents.

4.3.7.2 Unengaged response

Unengaged response may occur when respondents give answers with the same values to all given questions. Since the thesis used Likert-type scales questions to measure the independent and dependent variables, an analysis of standard deviation of all latent variables was conducted to identify unengaged responses. An extremely low standard deviation value was used as an indicator to identify unengaged respondents. The review of the data found no unengaged responses from the respondents.

4.3.8   Analysis of the quantitative data

Structural equation modelling (SEM) was selected as the statistical tool used to analyse the sets of hypotheses associated with relationships between the use of SAKIP and the organisational capabilities in ILG, and the relationship between the adoption of SAKIP and its influence on how ILG managers use SAKIP. One major advantage of SEM is that it is able to model abstract constructs that are comprised of observed variables and at the same time able to analyse causal relationships among unobserved (latent) variables (Lowry and Gaskin, 2014). SEM also allows the modelling and analysis of multiple relationships simultaneously and discloses the significance of each of the relationships between the variables (Baines and Langfield-Smith, 2003; Tucker et al., 2008).

This thesis particularly employed partially least square-structural equation modelling (PLS-SEM) to analyse both the measurement and structural model of the causal networks between independent and dependent variable constructs in the hypotheses. The strength and benefit of PLS technique have been acknowledged in management information system, strategic management, marketing and management research. Hair et al. (2011, p. 139) stated that "SEM has become a quasi-standard in marketing and management research" and PLS-SEM path modelling is very useful in "estimating causal models in many theoretical models and empirical data situations". PLS-SEM is a causal modeling approach that aims at maximizing the explained variance of the dependent latent constructs. Lowry and Gaskins (2014, p. 123) stated that PLS-SEM "can provide much value for causal inquiry in communication-related and behavioral

research fields". Akter, Fosso Wamba and Dewan (2017, p. 20) provided an empirical illustration showing the PLS-SEM suitability in estimating a complex model. Akter et al. (2017, p. 20) concluded that PLS-SEM technique is very useful in "developing and validating complex models", "capturing reality", or "reflecting the true parameters in the study". The PLS-SEM was selected for the following reasons:

1. The hypothesised structural model had a formative construct (i.e., adoption of SAKIP);
2. PLS-SEM was able to simultaneously estimate parameters and path coefficient among constructs;
3. PLS-SEM could handle a complex structural model;
4. It accepted non-normal data to some extent;
5. It allowed a relatively low sample size;
6. The latent variable scores would be used in subsequent analyses.

Therefore, PLS–SEM was used as the main tool to achieve the research objectives, test the hypotheses, and provide answers to the research questions. This procedure included the use of SmartPLS 2.0 software in evaluating the hypothesised relationship between exogenous and endogenous variables, and in testing the significance of the path coefficients.

4.3.8.1 Reliability

Reliability refers to a measurement model that is able to reach consistent measurement results when the model is re-applied on the same subjects and under the same conditions. In order to avoid a measurement error on the reflective measurement model, the study conducted construct reliability and validity assessments for the measurement models. Reliability assessments consist of two elements: internal consistency reliability and indicator reliability. Internal consistency reliability refers to the consistency of the assigned indicators in measuring a construct (Hair, Ringle, and Sarstedt, 2011). It accumulatively assesses the strength of associated indicators within the same construct. The thesis used the value of 0.7 as the minimum acceptable threshold for composite reliability.

Indicator reliability refers to the square root of the correlation between an indicator and its latent variables (Nunnally and Bernstein, 1994). The thesis used an indicator

reliability loading of 0.7 as the minimum acceptable threshold for indicator reliability. Items that did not meet the minimum reliability threshold would be removed from the measurement model.

4.3.8.2 Validity

Validity assessments for a reflective measurement model also consist of two tests, which are a convergent validity test and a discriminant validity test. Convergent validity refers to the degree a latent variable can explain its indicators' variance (Hair et al., 2011). Convergent validity is examined through the average variance extracted (AVE). An AVE score of 0.50 and higher ensures that the latent variable explains 50% of the indicator reflective variables variances. Therefore, this thesis used an AVE score of 0.5 as the minimum acceptable threshold for convergent validity. Discriminant validity refers to the degree to which the latent variable of a construct is not related to other constructs (Hulland, 1999). Discriminant validity is examined by using two measures: (1) the Fornell-Larcker criterion and (2) cross loadings scores (Hair et al., 2011).

4.4   Qualitative Stage

This research exercised the mixed-methods sequential explanatory design that started with the quantitative method and was followed by the qualitative method. This design started with quantitative data collection and analysis. The statistical results and analysis from the quantitative phase were used to describe the characteristics of the data and provide a general understanding of the research problem. Following the quantitative phase, the qualitative method was conducted with 20 participants. The qualitative method explores participants' thoughts and views in more depth, particularly regarding institutional pressures surrounding the relationship between the adoption and utilisation of SAKIP, and organisational learning. The qualitative data was collected by conducting semi-instructed interviews with ILG senior officials. The interview questions were developed to explain and interpret findings from the quantitative analysis. The results from the qualitative phase were used to refine and elaborate the statistical findings obtained from the quantitative phase. The findings from the combined methods provide corroborated and comprehensive research analysis.

4.4.1 Addressing reliability and validity

Given the different natures of quantitative and qualitative studies, the approaches to address the issues of validity and reliability in the qualitative phase were adjusted and modified. Reliability in the qualitative phase refers to the consistency of the results. This was achieved through the utilisation of consistent data collection procedures, appropriate interview methodologies, and transparent reporting of findings. Validity in the qualitative phase refers to methodological efforts to provide an accurate picture of the participants' view by organizing a credible inquiry process. The validity of the qualitative phase was addressed by (1) preparing interview questions that reflect the results of the quantitative analysis, (2) applying a consistent meaning for the concepts being studied with the concepts in the quantitative phase, such as organisational learning, diagnostic use, interactive use, and MCS, and (3) applying a purposive sampling that aimed to represent the diversity of ILG characteristics.

4.4.2 Sample selection

Most ILGs are located in the five major islands in Indonesia, namely Sumatera, Jawa, Kalimantan, Sulawesi and Papua, with fewer ILGs located in smaller islands, such as Bali, Nusa Tenggara, Timor, or Maluku islands. In the quantitative phase, the survey was distributed to 33 provincial, 399 district, and 98 city offices. From the 530 surveys mailed, 112 respondents indicated their willingness to participate in an interview. Since the main focus in the qualitative phase was to gain a deeper understanding regarding the utilisation of SAKIP and its impact on organisational learning, the selection of the interviewees considered the diversity of Indonesia's population characteristics. A purposive sample was used to select 20 participants that represented the types of ILGs (Province, Districts, and Cities) and each major island in Indonesia.

All interviewees were considered to be knowledgeable participants with sufficient working experience in local governments. By accommodating views from various locations and types of ILGs, the qualitative phase would capture the maximum variation of ILG views regarding SAKIP adoption and enhance the understanding of the impact of SAKIP on organisational learning.

4.4.3 Semi-structured interviews

Semi-structured interviews were conducted in order to explore ILG senior officials'

thoughts toward the adoption and use of SAKIP in their institutions. The questions in the interview were structured to meet the research objectives by exploring the pre-determined research themes. At the same time, the semi-structured interviews allowed the researcher to further investigate variations in the respondents' opinions and explanations that were still within the scope of the research objectives (Patton, 2002). By asking reflective, SAKIP-related questions, the respondents' experiences regarding ILGs values and behaviour toward SAKIP could emerge and be interpreted.

The interviews were used to explore and provide explanations of the results of the quantitative findings. The interview questions were guided by were developed based on what you find of the survey data. The model of the questions the research of (Askim, 2002; López et al., 2004; López, Peón, and Ordás, 2006). Qualitative data collection was accomplished by conducting face-to-face or phone interviews. Face-to-face interviews were conducted on the work premises of the interviewees. Phone interviews were conducted for ILGs located in areas where face-to-face interviewing would be very expensive and take too much time. All interviews were audiotaped with permission gained from every participant.

Prior to the interviews, selected participants were contacted to arrange the interview appointments. The appointments were drawn to meet participants' schedules and to allow them to provide information without any time pressures. During the interview, participants were provided with a copy of a participant information statement and consent form that emphasised the promise of complete confidentiality of the participant's identity. They were also reminded about the voluntary nature of the interview session and that they would be informed about the results of the study. For the telephone interviews, verbal consent was recorded before the interview commenced.

Participants were asked a set of prearranged questions about their experiences and perceptions toward the use of SAKIP. Some of the questions gave participants opportunity to explain in greater depth. By asking open-ended questions, the interviews would provide significant meaning and explanations of findings from the closed questions in the quantitative phase. On average, the interview was conducted for 50–60 minutes. Interview participants were asked to review any notes taken from the face-to-face interviews to ensure the accuracy of reported findings. All interviews were

subsequently transcribed into text data. The data transcripts were coded into sub-categories, categories, and finally themes. All transcript texts were directly translated into English. In order to ensure that the transcripts were accurately translated, the translations were reviewed by an English-speaking academic and a PhD student from Indonesia.

Thematic content analysis was used to analyse and interpret the qualitative data. The interview transcripts were manually examined and patterns that emerged from the participants' responses were categorised into several main concepts. Subsequently, the main concepts were developed and grouped into meaningful common themes. After analysing the interview transcripts, the responses of the ILG senior officers were organised and focused on the following common themes:

1. Factors affecting the adoption of SAKIP;
2. SAKIP as a source of information;
3. SAKIP as a source of discussion;
4. SAKIP as a tool to distribute information;
5. SAKIP and organisational memory in ILGs.

4.5   Ethical Considerations

Ethical considerations were taken into account in both quantitative and qualitative data collections. The surveys and the semi-structured interviews used to collect data in order to address the research questions were subjected to ethics clearance by Curtin University. To ensure confidentiality, the signed agreement to participate in the interview was returned under a separate cover from the completed survey. The research – both survey and interview phase – were conducted according to ethical requirements stipulated by Curtin University. The application for ethical approval for a research project involving humans was completed as part of the ethics approval process and the approval was granted. At all times during and after the study, no identifiers will be used – again ensuring complete confidentiality.

4.6   Summary

This chapter has presented the research design used to test the hypotheses drawn in Chapter Three. In order to expose causal relationships among observed variables and to identify institutional pressures involved in the causal relationship, the study adopted a

mixed-methods approach by incorporating elements of both quantitative and qualitative research. In the quantitative phase, a survey was conducted with data analysed using statistical procedures. The quantitative element was performed through a questionnaire to investigate the relationships among MCS adoption, utilisation, and other variables. Structural equation modelling (SEM) was selected as the statistical tool used to analyse the sets of hypotheses associated with relationships between the use of SAKIP and the organisational capabilities in ILG, and the relationship between the adoption of SAKIP and its influence on how ILG managers use SAKIP.

The quantitative phase was followed by the qualitative research, which examined inconclusive questionnaire findings and validated the measurement of constructs. The qualitative method explored participants' thoughts and views in more depth, particularly regarding institutional pressures surrounding the relationship between the adoption and utilisation of SAKIP, and organisational learning. The qualitative data was collected by conducting semi-structured interviews with 20 ILG senior officials. A purposive sample was used to select participants that represented the types of ILGs (Provinces, Districts, and Cities) and that represented at least two ILGs in each major island in Indonesia. By accommodating views from various locations and types of ILG, the qualitative phase captured the maximum variation of ILG views regarding SAKIP adoption and enhanced the understanding of the impact of SAKIP on organisational learning.

Chapter 5: **Quantitative Results and Analysis**

5.1   Introduction

The previous chapter outlined the research methodology adopted in the current study. It defined the approaches and design used to collect and analyse the data in the study. It also described the justification for selecting the mail survey's respondents and semi-structured interview participants. This chapter presents a description and analysis of the data obtained from the mail questionnaire survey. It utilises partial least square – structural equation modelling (PLS-SEM) regression to test the hypotheses of the current study. The evaluation of the proposed structural model was conducted by using the SmartPLS 2.0 statistical computer program. SmartPLS is used to test the significance of the path coefficients from each hypothesised relationship.

The chapter is organised into five sections. Section 5.2 provides preliminary analysis of the questionnaire, followed by the measurement model analysis in section 5.3. Analysis of the structural model will be presented in section 5.4, and section 5.5 will summarise the chapter.

5.2   Preliminary Analysis of the Questionnaire

5.2.1   Response rate

The surveys were sent to ILG officials who are responsible for SAKIP reporting. From the 530 surveys mailed, a total of 175 were returned. This resulted in a response rate of 33.02%. Table 5.1 presents the distribution of responses from the survey. The table shows that the response rates from provinces, districts, and cities were 7.43%, 68.57%, and 24% respectively, thus providing a good representation of the population. A comparison based on location also shows a good representation of the population. The response rate from in-Java and out-of-Java respondents was 25.71% and 74.29% respectively, also showing a similarity with the population proportion.

Due to the low responses from non-SAKIP-adapter respondents, ten responses from ILGs identified as non-SAKIP-adapter were excluded. Therefore, 165 responses (31.13%) were used for further analysis. The response rate met the minimum accepted mail survey rate of 30% as suggested by Cooper and Schindler (2008). The response

rate also exceeded three suggested rules of thumb for PLS-Structural Equation Modelling (PLS-SEM) minimum sample size. First, the sample size exceeded the minimum sample size of 100 responses suggested by (Kline, 2005). Second, the sample size exceeded the 'ten times the largest number of formative indicators used' rules (Hair et al., 2011). Third, the sample size was also above ten times the largest number of structural paths of a particular latent construct in the structural model (Hair et al., 2011).

Table 5.1: Distribution of responses

	Sent (457)		Received (175)		
	Frequency	**%**	**Frequency**	**%**	**Response Rate**
Location					
In Java	118	22.26	45	25.71	38.14
Out of Java	412	77.4	130	74.29	31.55
Total	**530**	**100**	**175**	**100**	
Type					
Province	33	6.23	13	7.43	39.39
Districts	399	75.28	120	68.57	30.08
Cities	98	18.49	42	24.00	43.86
Total	**530**	**100**	**175**	**100**	**33.02**

A chi-squared (goodness of fit) test was also conducted to determine whether the frequency of respondents to the survey was representative of the target population. The chi-squared (goodness of fit) test results for the frequency distribution of actual compared to expected level of respondents by location (in Java and out of Java) and type (Province, Districts and Cities) are both below the recommended X^2 critical value of 3.841 and 5.991 and above the significance level of .05. A chi-squared result of X^2 of 1.204 and p of 0.273 for location and X^2 of 4.323 and p of 0.116 for type would indicate that the sample is highly representative of the target population.

5.2.2 Non-response bias

Identifying and measuring non-response bias is important for a study to have a generalizable research result. The issue of non-response bias occurs when answers from a non-respondent group are systematically different than ones from respondent groups. Non-response bias can be investigated by comparing early and late respondents (see Table 5.2 for questionnaire return date). In order to assess non-response bias, this study compared 70 early returned questionnaires with 16 respondents returned in the fourth week after the deadline, using the Mann-Whitney test. Table 5.3 provides the results

from the test.

Table 5.2: Questionnaires' return date

Period of return	Frequency	Percentage of Responses
Before 25th of April 2014	70	40%
First week after the 25th	32	18%
Second week after the 25th	49	28%
Third week after the 25th	8	5%
Fourth week after the 25th	16	9%

Table 5.3: Mann-Whitney test results

Variables	Time of Response	Mean Rank	Sig. (2-tailed)
External pressures	1	42.84	0.804
	2	41.25	
Internal pressures	1	42.02	0.729
	2	44.28	
Facilitator	1	41.42	0.437
	2	46.44	
Barriers	1	44.01	0.277
	2	36.97	
Adoption of SAKIP	1	41.70	0.880
	2	40.74	
Diagnostic use	1	42.61	0.939
	2	42.11	
Interactive use	1	43.55	0.450
	2	38.67	
Learning	1	40.51	0.151
	2	49.81	

Legend: 1= Before 25th April 2014, 2= After 17th May 2014

Table 5.3 shows that there were no statistically significant differences between early and late respondents for all construct variables; i.e., external pressures, internal pressures, facilitator, barriers, adoption, diagnostic use, interactive use, and learning. The result, therefore, supports the absence of significant non-response bias of the study.

5.2.3 Demographic characteristics

The demographic characteristics of the respondents are summarised in Table 5.4. As discussed in the previous section, the questionnaires were addressed to senior officials responsible for SAKIP reporting. The majority of respondents in this category (52.1%) have worked for more than 5 years in the division associated with SAKIP management; thus, they possess sufficient knowledge to provide suitable answers to the questionnaires. Overall, males were still the majority among the respondents (77.0% vs. 18.2% for females). The respondents had diverse educational backgrounds, with most of the respondents holding a master's degree (57.0%).

Table 5.4: Demographic information of respondents (N=165)

Characteristic			Frequency	Percentage
Government type	-	Province	13	7.9
	-	District	111	67.3
	-	City	41	24.8
Location	-	Sumatera	48	29.1
	-	Jawa	46	27.9
	-	Kalimantan	21	12.7
	-	Sulawesi	25	15.2
	-	Bali NTB	20	12.1
	-	Papua	5	3.0
Gender	-	Male	127	77.0
	-	Female	30	18.2
	-	Missing	8	4.8
Age group	-	<30	2	1.2
	-	30–40	49	29.7
	-	41–50	67	40.6
	-	>50	38	23.0
	-	Missing	9	5.5
Education level	-	Undergraduate	63	38.2
	-	Masters	94	57.0
	-	Phd	3	1.8
	-	Missing	5	3.0
Field background	-	Accounting	10	6.1
	-	Management	53	32.1
	-	Public Admin	19	11.5
	-	Others	41	24.8
	-	Missing	42	25.5
Work experience in the division (in years)	-	<2	41	24.8
	-	2–5	29	17.6
	-	6–10	28	17.0
	-	11–15	17	10.3
	-	>15	41	24.8
	-	Missing	9	5.5
Latest training in performance mgmt.	-	<2	74	44.8
	-	2–5	31	19.4
	-	6–10	17	10.3
	-	>15	1	0.6
	-	Missing	42	25.5

5.2.4 Missing values – construct variables

The respondent data had 14 construct items that were not completed due to the non-response of four respondents. The missing values identified from the construct variables were as follows:

1. Adoption 6e had two missing values;
2. Adoption 6f had one missing values;
3. All items within the diagnostic construct had one missing value that came from the same respondent.
4. Learning 9b had one missing value.

Since all items in the construct variables were ordinal data measured using a Likert scale, this research treated construct variable missing data by imputing the median value of each item.

5.2.5 Measurement variables profiles

5.2.5.1 External pressures

Based on the sample of 165 ILGs that completed the SAKIP adopter questionnaire, it can be seen in Table 5.5 below that that coercive pressures from regulations are the main external factors that influence an ILG to adopt SAKIP. On the other hand, public pressures from the historic political/economic crises in 1998 is no longer considered as the most important factor that drives the ILGs' decision to adopt SAKIP. This result indicates the changing characteristic of coercive pressures in ILGs that is mainly driven by rule and regulation.

Table 5.5: External pressures

	Mean	Median	Mode	Std. Dev
Ext pressures from regulation2	4.56	5	5	0.53
Ext pressures from regulation1	4.55	5	5	0.56
Ext pressures from the Central Government Ministry	4.37	4	4	0.54
Ext pressures from budget allocation	4.20	4	4	0.81
Ext pressures from public	4.12	4	4	0.84
Ext pressures from 1998 crises	3.71	4	4	0.92

5.2.5.2 Internal pressures

The survey finds that one major internal factor for ILG to adopt SAKIP is to be able to provide improved financial and performance information for the purpose of preparing the local government strategic planning. Another internal factor that influences ILGs' decision to adopt SAKIP is when top management (Governor or Mayor) is in favour of upgrading the control system.

Table 5.6: Internal pressures

	Mean	Median	Mode	Std. Dev
Provide improved financial and performance information for local government strategic planning.	4.50	5	5	0.65
Top management of local government wanted upgraded systems.	4.40	4	5	0.65
To provide improved information for preparing ILG budgets.	4.35	4	4	0.69
The need for cost information for performance measurement initiatives.	4.23	4	4	0.70
Need for better performance information to anticipate less funding, i.e. from DAU, DAK, DBH.	4.18	4	4	0.87
Requirement for tighter control of expenditure.	4.18	4	4	0.71
To enable top management to compare his/her achievements with other local government leaders.	4.14	4	4	0.75
To provide information for operational (day-to-day) decision-making.	4.13	4	4	0.78
Request from the head of the administrative department for cost information.	4.08	4	4	0.84
Request from the head of each operational division (SKPD) for cost information.	4.02	4	4	0.79
To update an existing system as it was not able to meet the information needs of external users.	3.98	4	4	0.81
Lack of decision-relevant cost information from the accounting and budget systems.	3.72	4	4	0.86

On the other hand, ILGs view the existing accounting and budget systems as providing adequate cost-related information for decision-making purposes and that SAKIP is not the most important source of information for the day-to-day decision-making process. This finding may help in explaining the significant numbers of top and operating ILG managers who do not pay attention to SAKIP in their daily activities and still require specialists to interpret SAKIP. It also may indicate that ILGs' decision to comply with

SAKIP and other centralised reporting requirements were made in order to be seen as submitting to central government programs.

5.2.5.3 Facilitator of change

The survey finds that ILGs view leaders' commitment to adopt SAKIP, knowing data requirements to perform measurement, adequate resources committed to adopt SAKIP, and data collection techniques as major factors in supporting SAKIP adoption.

The willingness to be perceived as a more accountable ILG by central agencies and local stakeholders (the sign of mimetic pressures) is still considered a reason for SAKIP adoption. The same applies for a culture and mindset within the ILG that supports change (the sign of institutional demand). On the other hand, the use of an external consultant (a sign of normative pressures), the level of priority for SAKIP implementation, and the clarity of SAKIP's role in ILGs' financial management systems are considered to be less important as supporting factors in the change process.

Table 5.7: Facilitators of change

	Mean	Median	Mode	Std. Dev
Commitment by top management of local government.	4.91	5	5	0.31
Full understanding and knowledge of data requirements.	4.64	5	5	0.53
Adequate resources committed to adopt SAKIP.	4.64	5	5	0.52
Full understanding of how to collect data.	4.63	5	5	0.49
Perceived as a more accountable ILG by central agencies and local stakeholders.	4.54	5	5	0.61
Well-planned training program for employees.	4.53	5	5	0.56
Necessary culture and mindset within the ILG to support change.	4.45	4	5	0.59
High level of involvement by the MSABR.	4.36	4	4	0.63
Adequate number of internal staff.	4.31	4	4	0.63
Clarity of SAKIP's role in the local government's financial management system.	4.25	4	4	0.77
High priority given to adopting SAKIP.	4.21	4	4	0.58
No resistance to the adoption of SAKIP by employees.	3.94	4	4	0.84
Employment of external consultant.	3.48	4	4	0.84

5.2.5.4 Barriers to change

Interestingly, ILGs also consider a lack of top management commitment and high cost of SAKIP implementation as the major barriers in SAKIP adoption. A lack of

understanding about data requirements and data collection has also become a barrier for ILGs to adopt SAKIP.

On the other hand, employees' resistance and culture are considered less important in obstructing SAKIP implementation in ILGs. One possible explanation is that SAKIP and the implementation of SAKIP are not directly related to an ILG's technical operation

Table 5.8: Barriers to change

	Mean	Median	Mode	Std. Dev
Lack of commitment by top management of local governments.	4.21	5	5	1.22
Lack of understanding and knowledge of data requirements.	4.07	4	4	1.04
Lack of understanding of how to collect data.	4.01	4	4	1.04
High cost of SAKIP implementation.	3.97	4	4	1.01
Lack of internal staff to monitor the adoption process.	3.92	4	4	1.01
Lack of a planned SAKIP training program for employees.	3.91	4	4	1.05
Lack of involvement by the MSABR.	3.89	4	4	1.06
The opaqueness of SAKIP's role in the local government's financial management system	3.87	4	4	1.07
Not being perceived as a more accountable ILG by central agencies and local stakeholders.	3.85	4	4	1.13
SAKIP was given lower priority than other LG initiatives.	3.83	4	4	1.07
Inappropriate culture, custom and mind-set of LG employees working within the institution.	3.80	4	4	1.07
Resistance to SAKIP implementation by employees.	3.52	4	4	1.08
Lack of external consultant.	3.21	3	4	0.96

5.2.5.5 Adoption of SAKIP

Indonesia has also implemented performance-based budgeting in their public sector financial management. Under this approach, agencies' performance is measured not only by their output attainment but also outcome achievement. SAKIP is employed with the same spirit, emphasizing the capturing and reporting of ILG outcome achievement. The jargon of outcome achievement is often used by the MSAEBR in disseminating SAKIP to ILGs. Prior to implementing performance-based budgeting, ILGs used the traditional incremental budgeting for a long period of time. Most ILGs are still practising the traditional budget mechanism while implementing the performance-based budget system (Dwiyanto, 2011).

The survey shows that ILGs view outcomes as a very important aspect in determining

their coming year's budget allocation. ILGs also see that they have some mechanisms for validating KPIs used in SAKIP. However, they agree that they have not fully implemented a set of criteria for determining good performance indicators. The independent review to evaluate the accuracy of information in SAKIP (this is done by the MSAEBR or BPKP) may not focus on the quality of KPIs used but by putting more emphasis on data and report format. These factors show that ILG – and legislators who review ILGs achievement – may not fully understand the concept of performance measurement in SAKIP. Therefore, the "outcome" and "output" indicators used in SAKIP may not be reliable or valid in measuring their actual achievement.

Table 5.9: Adoption of SAKIP

	Mean	Median	Mode	Std. Dev
The achievement of the current year's outcome indicators is crucial in determining the next year's appropriation level.	4.48	5	5	0.75
There is a mechanism to review the validity of performance indicators used in SAKIP.	4.39	4	4	0.61
Review of ILG's outcome achievement by parliament is mainly based on SAKIP.	4.03	4	4	0.82
The achievement of the current year's output indicators are crucial in determining the next year's appropriation level.	3.92	4	4	0.99
There is an independent review that evaluates the accuracy of information on SAKIP.	3.72	4	4	0.79
In determining performance indicators, an ILG has fully implemented a set of criteria for good performance indicators such as relevance, attribution, timeliness, reliability, and verifiability.	2.80	2	2	1.13

5.2.5.6 Diagnostic controls

The survey shows that ILG management teams currently rely on performance information in SAKIP to review key measures and to develop a common vocabulary in the institutional setting for strategy and program priorities. They also use performance information in SAKIP to focus on organisational critical success factors, tie the institution together, develop a common vocabulary in the institution setting for strategy and program priorities, and focus on common issues.

SAKIP is moderately used for vertical/horizontal discussions, tracking progress towards goals, enabling continual challenge and debate of underlying data, assumptions, and action plans, and for providing a basis for reward and punishment.

Table 5.10: Diagnostic controls

	Mean	Median	Mode	Std. Dev
Review key measures.	3.85	4	4	0.95
Develop a common vocabulary in the institutional setting for strategy and program priorities.	3.83	4	4	0.84
Enable the institution to focus on critical success factors.	3.77	4	4	0.87
Tie the institution together.	3.76	4	4	0.91
Enable the institution to focus on common issues.	3.74	4	4	0.94
Provide a common view of the institution.	3.72	4	4	0.85
Monitor results.	3.71	4	4	0.93
Compare outcomes to expectations.	3.66	4	4	0.98
Enable discussion in meetings of superiors, subordinates and peers.	3.61	4	4	0.98
Track progress towards goals.	3.60	4	4	0.97
Enable continual challenge and debate of underlying data, assumptions, and action plans.	3.41	3	4	0.87
Provide a basis for implementing reward and punishment mechanisms in the institution.	3.28	3	3	1.09

5.2.5.7 Interactive controls

The interactive use of SAKIP shows that top management pays little attention to SAKIP and relies on specialists in preparing and interpreting information from SAKIP. This result may show that ILGs' managers have not used SAKIP interactively even though they have formally implemented the system and used SAKIP terminology. This result could also indicate that top management have put in significant effort to comply with the variety of central government agencies that require similar information, but they fail to understand the specific purpose of SAKIP within the ILG technical environment.

Table 5.11: Interactive controls

	Mean	Med	Mode	Std. Dev
Top management holds regular meetings with operating managers to discuss performance achievements reported on SAKIP.	4.14	4	4	0.79
Top management interprets information from SAKIP.	3.93	4	4	0.81
Operating managers are frequently involved with SAKIP.	3.82	4	4	0.87
Top management pays daily attention to the information in SAKIP.	3.50	4	4	0.91
Operating managers are involved with SAKIP infrequently and on an exception basis.	3.15	4	4	1.19
Top management relies heavily on staff specialists in preparing and interpreting information from SAKIP.	3.01	3	4	1.10
Top management pays little attention to SAKIP.	2.74	2	2	1.17

5.2.5.8 Organisational learning

The organisational learning variable shows that that all ILGs moderately had the procedures and ability to collect, store and distribute information that can be used for detecting problems and proposing solutions. Most ILGs had a regular coordination meeting routine where information could be shared among ILG managers.

Table 5.12: Organisational learning

	Mean	Med	Mode	Std. Dev
There are extensive formal and informal procedures and processes for the acquisition of information and knowledge from internal and external sources that are potentially useful to your institution.	4.17	4	4	0.67
Meetings are periodically held to inform all employees about the latest innovations in the institution.	4.06	4	4	0.76
Employees share knowledge and experience by talking to each other.	4.01	4	4	0.69
The institution stores information and knowledge from prior experience in formal systems (e.g., databases, documentation of programs, plans, procedures, and reports).	3.99	4	4	0.74
The institution has databases to stock its experience and knowledge so as to be able to use them later on.	3.99	4	4	0.74
New ideas and approaches on work performance are explored continuously.	3.98	4	4	0.73
The institution's beliefs, attitudes and ways of doing business provide a strong basis for interpreting information.	3.93	4	4	0.66
All members of the institution share the same aim, to which they feel committed.	3.93	4	4	0.83
There are well-established ways to share information and knowledge between people within the ILG.	3.87	4	4	0.755
The institution has directories or emails filed according to the field they belong to, so as to find an expert on a concrete issue at any time.	3.87	4	4	0.77
The institution has formal mechanisms to guarantee the sharing of best practice among the different fields of activity.	3.82	4	4	0.81
The institution encourages its employees to join formal or informal networks made up of people from outside the institution.	3.26	3	3	0.86

5.3   Comparison of Indonesian Local Governments

An initial analysis using descriptive statistics was conducted with results presented here.

5.3.1   By Government Type

This section analyses the mean comparison between respondents from cities (urban government with typically more dense populations) and districts (rural government with less dense populations), as provided in Table 5.13.

Table 5.13 Comparison by Government Type

Variables	Province (n=13)		City (n=41)		District (n=111)		Total (n=165)	
	Mean	SD	Mean	SD	Mean	SD	Mean	SD
External Pressures	4.14	0.55	4.31	0.43	4.14	0.42	4.25	0.44
Internal Pressures	4.31	0.48	4.15	0.49	4.14	0.37	4.16	0.46
Facilitator	4.50	0.30	4.36	0.32	4.36	0.35	4.37	0.33
Barriers	3.78	1.07	3.92	0.81	3.69	0.97	3.85	0.88
Adoption	4.04	0.34	3.88	0.43	3.83	0.43	3.88	0.43
Diagnostic Use	3.63	0.93	3.60	0.80	3.87	1.09	3.67	0.89
Interactive Use	3.18	0.56	3.54	0.57	3.32	0.73	3.46	0.62
Organisational Learning	**3.87**	0.43	**3.95**	0.53	3.77	0.51	3.90	0.52

With regard to external pressures, all types of local governments obtain relatively high mean scores. The result indicates the role of external users of information such as central government agencies in imposing regulations that influenced ILGs' decision to adopt SAKIP, remained crucial in local government. With regard to facilitators of change, response from cities and districts showed similar means indicating promoters that foster ILGs to adopt SAKIP, such as MSAEBR and BPKP have relatively similar access to both types of governments.

5.3.2 By Location

Table 5.14 presents the mean comparison between respondents from Java and non-Java. Java was selected because it is the most populated island in Indonesia, while non-Java was islands spread over the Indonesian archipelago.

Table 5.14 Comparison by Location

Variables	In-Java (n=46)		Out-of-Java (n=119)		Total (n=165)	
	Mean	SD	Mean	SD	Mean	SD
External	4.24	0.45	4.26	0.44	4.25	0.44
Internal	4.19	0.47	4.15	0.46	4.16	0.46
Facilitator	4.36	0.40	4.38	0.30	4.37	0.33
Barrier	3.94	0.86	3.82	0.88	3.85	0.88
Adoption	3.89	0.43	3.88	0.43	3.88	0.43
Diagnostic	3.89	1.03	3.59	0.82	3.67	0.89
Interactive	3.46	0.66	3.45	0.61	3.46	0.62
Learning	3.87	0.51	3.91	0.52	3.90	0.52

Similar with the previous comparison analyses, the result of the mean comparison showed that there are no apparent differences for all variables between responses from in-Java and out-of-Java. This indicates that all local governments are familiar with the requirement to adopt SAKIP and share relatively similar approach in utilising the system.

5.3.3 By Financial Independence Ratio

Table 5.15 presents the mean comparison between respondents from high and low financial independence ratio. ILGs' financial independence ratio (FIR) is an indicator used by the Ministry of Finance that determines the degree of local governments' ability to rely on their own revenue and/or on the central government's transfer fund in funding their programs and activities. ILGs with a high are considered to have relatively high revenue and less reliance on the central government's transfer fund. On the other hand, ILGs with a low financial independence ratio depend more on the central government transfer money to fund their program and activity.

Table 5.15 Comparison by Financial Independence Ratio

Variables	Low (n=110)		High (n=55)		Total (n=165)	
	Mean	SD	Mean	SD	Mean	SD
External	4.25	0.45	4.26	0.43	4.25	0.44
Internal	4.12	0.46	4.23	0.46	4.16	0.46
Facilitator	4.36	0.30	4.39	0.39	4.37	0.33
Barrier	3.77	0.89	**4.03**	0.82	3.85	0.88
Adoption	3.85	0.43	**3.94**	0.43	3.88	0.43
Diagnostic	3.60	0.81	**3.82**	1.03	3.67	0.89
Interactive	3.44	0.58	**3.49**	0.70	3.46	0.62
Learning	3.89	0.52	3.92	0.52	3.90	0.52

The result of the mean comparison showed that responses from ILGs with high financial freedom are relatively higher mean than those with low financial freedom for all variables. This indicated that the extent of adoption and utilisation of SAKIP in "richer" ILGs was higher than it was in "poorer" ones.

5.4 Independent t-Tests for Control Variables

An independent t-test was employed for the three control variables in order to provide statistical support to the previous mean comparison analyses. The summary of results for the independent t-test for all control variables is presented in Tables 5.16.

5.4.1 By Government Type

The results of the independent sample t-test for districts and cities; and and for the eight dependent variables were mixed. For external pressures, the test revealed a score of 0.034 indicating a significant difference between districts and cities with regard to external pressures variable. Cities usually have better human resources and experiences in responding to the central government's demand regarding SAKIP adoption and implementation. The result implied that respondents from districts tend to rely more on compliance with SAKIP-associated regulations as their way to show improved accountability and gain social legitimacy.

5.4.2 By Location

The results of the independent sample t-test for different locations of ILGs and the eight dependent variables were similar. ILGs located in Java island experienced pressures to adopt SAKIP to relatively the same extent as the one located out-of-Java island. This finding also indicated that the extent of utilising SAKIP within ILGs was indifferent, regardless of the ILG's location.

5.4.3 By Financial Independence Ratio

The results of the independent sample t-test for ILGs with different FIR and the eight dependent variables were similar. ILGs with high FIR experienced external and internal pressures to adopt SAKIP to relatively the same extent as the one with low FIR. This finding also indicated that the extent of utilising SAKIP within ILGs was indifferent, regardless of their revenue and reliance on the central government's transfer fund. In order to provide richer explanation, further analyses were conducted in section 5.6 by statistically investigating the significant path of the hypothesised relationship within each control group.

Table 5.16 Independent Sample t-Tests for Control Variables

Control Variables		Type	Location	FIR
External	Sig.	0.034*	0.732	0.853
	Mean	0.167	0.026	-0.014
Internal	Sig.	0.927	0.569	0.135
	Mean	0.008	-0.046	-0.114
Facilitator	Sig.	0.983	0.758	0.596
	Mean	0.001	0.020	-0.031
Barrier	Sig.	0.134	0.405	0.074
	Mean	0.236	-0.127	-0.258
Adoption	Sig.	0.532	0.928	0.230
	Mean	0.050	-0.007	-0.085
Diagnostic	Sig.	0.096	0.053	0.125
	Mean	-0.271	-0.298	-0.226
Interactive	Sig.	0.089	0.966	0.588
	Mean	0.219	-0.005	-0.056
Learning	Sig.	0.057	0.630	0.805
	Mean	0.183	0.044	-0.021

Legend: *=Significant at 95% confidence level (< 0.05, 2-tailed)

5.5 Evaluating the Measurement Model

As mentioned in the previous chapter, SmartPLS 2.0 was the SEM-PLS statistical software used to evaluate the reliability and validity of the measurement model. At the same time, the software was also used to conduct the path analysis to examine the sets of hypotheses associated with relationships between the use of SAKIP and the organisational capabilities in ILG; and relationship between the adoption of SAKIP and its influence on how ILG managers use SAKIP.

One major reason to use PLS-SEM is because PLS-SEM can analyse a complex structural model comprising reflective and formative constructs. A reflective (consequent) construct is a set of observable variables that are assumed to be affected by a latent construct. All observed variables within a reflective latent construct share similar meanings because they are part of the same construct. There were seven reflective constructs in this study: (1) external pressures, (2) internal pressures, (3) facilitator, (4) barriers, (5) diagnostic use, (6) interactive use, and (7) learning.

A formative construct is a set of observable variables that cause the formation of a latent construct. All observed variables in a formative latent construct do not share similar

meaning because they are the components that form the construct. The formative construct in this study is the adoption of the SAKIP construct. Using SmartPLS, a PLS-SEM path model was created based on the conceptual model presented in Chapter Three. Table 5.13 presents the summary of initial variables in the model.

Table 5.17: Summary of initial variables in the model

No	Latent Variables	Short Code	Variables Types	Observed Variables	Number of Items
1	External Pressures	EP	exogenous	EP_a-EP_f	6
2	Internal Pressures	IP	exogenous	IP_a–IP_l	12
3	Facilitator	FC	exogenous	FC_a–FC_m	13
4	Barriers	BR	exogenous	BR_a–BR_m	13
5	Adoption	ADP	endogenous	ADP_a–ADP_f	6
6	Diagnostic Use	DIG	endogenous	DIG_a–DIG_l	12
7	Interactive Use	ITR	endogenous	ITR_a–ITR_g	7
8	Organisational Learning	LRN	endogenous	LRN_a–LRN_l	12
				Total	**81**

There were eighty-one observed items within eight latent variables used in the model. The number of observed variables for each construct ranged from six to thirteen items. The model comprised of four exogenous variables (external pressures, internal pressures, facilitator of change, and barriers to change), and four endogenous variables (adoption of SAKIP, diagnostic control, interactive control, and organisational learning).

5.5.1 Reliability

5.5.1.1 Indicator reliability

In order to assess the indicator reliability of a reflective construct, the study examined the factor loading of each indicator. SmartPLS creates an outer loading report that contains the factor loading of each observable item toward its respective construct. The accepted minimum threshold for factor loading is 0.70, which means the latent variables can explain 50% of the indicator's variance. Indicators with a factor loading below 0.70 are subject to removal in order to increase the latent construct's composite reliability score to meet the suggested threshold value.

The final results of the indicator reliability analysis are reported in Table 5-14. After the indicator reliability assessment was conducted, 33 observable variables with factor

loading values of lower than 0.7 were removed from further analysis. The observable items dropped from their corresponding constructs were: three items from external pressures, seven items from internal pressures, ten items from facilitator to change, one item from barriers to change, three items from interactive use, and seven items from organisational learning.

5.5.1.2 Internal consistency reliability

Internal consistency reliability refers to how well a set of observable items is mutually assigned to a construct. The minimum thresholds for internal consistency reliability are: (1) the composite reliability score should be higher than 0.70 and (2) the communality score should be higher than 0.50. Table 5.15 provides a summary of the internal consistency reliability for all reflective measurement constructs. The evaluation results found that all constructs achieved adequate internal consistency reliability from the respective observable items.

5.5.2   Convergent Validity

Convergent validity was assessed through the average variance extracted (AVE). The results showed that all latent constructs had an adequate AVE score. The thesis also examined convergent validity by testing the significance of the loading of each observable item within each corresponding latent variable (Lowry and Gaskin, 2014). Table 5.16 provides evidence that all observable indicators of a latent construct adequately operate in similar ways.

Table 5.18: Indicator reliability – final model

Latent Variables	Observed Variables	Indicator Loading
External Pressures (EP)	EP2d	0.79
	EP2e	0.73
	EP2f	0.76
Internal Pressures (IP)	IP3b	0.73
	IP3d	0.78
	IP3e	0.74
	IP3j	0.74
	IP3k	0.70
Facilitator (FC)	FC4c	0.80
	FC4f	0.72
	FC4k	0.79
Barriers (BR)	BR5a	0.90
	BR5b	0.81
	BR5c	0.89
	BR5d	0.81
	BR5f	0.87
	BR5g	0.75
	BR5h	0.89
	BR5i	0.88
	BR5j	0.93
	BR5k	0.86
	BR5l	0.87
	BR5m	0.84
Diagnostic Use (DIG)	DIG7a	0.89
	DIG7b	0.89
	DIG7c	0.88
	DIG7d	0.89
	DIG7e	0.87
	DIG7f	0.87
	DIG7g	0.82
	DIG7h	0.83
	DIG7i	0.81
	DIG7j	0.85
	DIG7k	0.88
	DIG7l	0.81
Interactive Use (ITR)	ITR_Q8d	0.76
	ITR_Q8e	0.83
	ITR_Q8f	0.82
	ITR_Q8g	0.81
Organisational Learning (LRN)	LRN9e	0.82
	LRN9f	0.83
	LRN9g	0.75
	LRN9k	0.74
	LRN9l	0.78

Table 5.19: Internal consistency reliability

	Composite Reliability	Communality
External Pressures	0.80	0.58
Internal Pressures	0.86	0.54
Facilitator	0.82	0.60
Barriers	0.97	0.74
Diagnostic	0.97	0.73
Interactive	0.88	0.65
Organisational Learning	0.89	0.62

Table 5.20: Convergent validity

Construct (latent variable)	Indicator	t-statistic	
External Pressures AVE = 0.60	EP2d	7.16	***
	EP2e	5.51	***
	EP2f	4.78	***
Internal Pressures AVE = 0.54	IP3b	9.85	***
	IP3d	11.98	***
	IP3e	10.74	***
	IP3j	10.52	***
	IP3k	8.47	***
Facilitator AVE = 0.60	FC4c	12.51	***
	FC4f	10.23	***
	FC4k	12.30	***
Barrier AVE = 0.74	BR5a	2.53	**
	BR5b	2.44	**
	BR5c	2.61	***
	BR5d	2.49	**
	BR5f	2.55	**
	BR5g	2.48	**
	BR5h	2.58	***
	BR5i	2.57	**
	BR5j	2.59	***
	BR5k	2.59	***
	BR5l	2.55	**
	BR5m	2.56	**
Diagnostic Control AVE = 0.73	DIG7a	31.68	***
	DIG7b	30.94	***
	DIG7c	32.64	***
	DIG7d	34.06	***
	DIG7e	29.62	***
	DIG7f	24.85	***
	DIG7g	17.65	***
	DIG7h	21.08	***
	DIG7i	17.90	***
	DIG7j	21.59	***
	DIG7k	27.60	***
	DIG7l	19.35	***

Table 5.16 (cont…)

Construct (latent variable)	Indicator	t-statistic	
Interactive Control AVE = 0.65	ITR_Q8d	13.17	***
	ITR_Q8e	24.30	***
	ITR_Q8f	20.69	***
	ITR_Q8g	26.10	***
Learning AVE = 0.62	LRN9e	26.56	***
	LRN9f	23.66	***
	LRN9g	17.19	***
	LRN9k	11.14	***
	LRN9l	18.52	***

*** >=2.58 / *p<0.01; **>=1.96 / *p<0.05;
*>=1.65 / *p<0.1

5.5.3 Discriminant validity

Discriminant validity refers to the distinctiveness of observable variables in measuring a latent construct. The observable variables should have a higher association with their theoretically corresponding latent variable than to any other latent variable. The discriminant validity of the measurement model is demonstrated by (1) comparing the square root AVE of each latent construct to the correlations with other latent variables (Hair et al., 2011; Lowry and Gaskin, 2014), and (2) by examining the matrix of cross-loadings of indicator variables. Table 5.17 indicates that the measurement model meets the first discriminant validity test, with the square root of AVE of each latent variable being higher than the construct's correlation with any other latent variables. Furthermore, the cross loading matrix in Table 5.18 indicates that the measurement model also passes the second discriminant validity test, with the indicator's factor loadings being higher than all of its cross loadings.

Table 5.21: Discriminant validity through the Square Root of AVE

	BR	DIG	EP	FC	IP	IT	LRN
BR	**0.86**						
DIG	-0.13	**0.86**					
EP	0.10	0.07	**0.76**				
FC	0.09	0.32	0.26	**0.77**			
IP	0.02	0.34	0.38	0.55	**0.74**		
IT	-0.06	0.36	0.17	0.35	0.35	**0.81**	
LRN	0.07	0.37	0.23	0.32	0.41	0.68	**0.79**

Table 5.22: Loadings of the measurement items

	BR	DIG	EP	FC	IP	IT	LRN
BR5a	**0.896**	-0.1975	0.0825	-0.0074	-0.0362	-0.1211	0.0208
BR5b	**0.809**	-0.1263	0.1261	-0.0609	-0.0711	-0.0111	0.0617
BR5c	**0.8907**	-0.1489	0.1221	0.1165	0.0196	-0.0201	0.0541
BR5d	**0.8051**	-0.1695	0.0519	0.0895	-0.0136	-0.1641	-0.0005
BR5f	**0.8658**	-0.1756	0.078	0.0473	-0.0627	-0.0852	0.0223
BR5g	**0.7479**	0.0021	0.0369	0.0955	0.0653	-0.03	0.0262
BR5h	**0.8899**	-0.081	0.0296	0.0564	0.087	-0.0525	0.1083
BR5i	**0.8805**	-0.1301	0.1328	0.0719	0.059	-0.0617	0.0654
BR5j	**0.9279**	-0.1246	0.0786	0.0416	0.0345	-0.0913	0.0679
BR5k	**0.8627**	-0.0694	0.0566	0.1771	0.0455	-0.0625	0.0147
BR5l	**0.8686**	-0.1238	0.0551	0.0679	-0.0009	0.011	0.1181
BR5m	**0.84**	-0.0796	0.1578	0.0545	-0.0379	0.0478	0.1578
DIG7a	-0.106	**0.8877**	0.0394	0.3166	0.2411	0.2852	0.2684
DIG7b	-0.1423	**0.8872**	0.0287	0.3208	0.2781	0.2777	0.2768
DIG7c	-0.1043	**0.8833**	0.0296	0.3621	0.2663	0.398	0.3251
DIG7d	-0.0868	**0.8899**	0.0955	0.3478	0.3147	0.3142	0.3441
DIG7e	-0.1018	**0.8682**	0.0373	0.3202	0.2882	0.3238	0.325
DIG7f	-0.1848	**0.8661**	0.0621	0.291	0.205	0.2988	0.3224
DIG7g	-0.1118	**0.8224**	0.0615	0.2494	0.3135	0.2883	0.2705
DIG7h	-0.1425	**0.8311**	0.0909	0.2371	0.3368	0.3505	0.32
DIG7i	-0.1061	**0.8096**	0.0469	0.1922	0.3372	0.2421	0.3072
DIG7j	-0.0825	**0.8462**	0.0949	0.1956	0.3065	0.3006	0.3642
DIG7k	-0.1134	**0.8772**	0.0785	0.236	0.3368	0.3104	0.3394
DIG7l	-0.0851	**0.8076**	0.0594	0.2487	0.2345	0.3263	0.2993
EP2d	0.1016	0.1399	**0.7889**	0.3218	0.4292	0.2277	0.2774
EP2e	0.1113	-0.0408	**0.7284**	0.1093	0.1817	0.0369	0.0737
EP2f	-0.0088	0.0302	**0.7588**	0.1244	0.1886	0.0927	0.1434
FC4c	0.0217	0.3102	0.1405	**0.7977**	0.5153	0.2067	0.191
FC4f	0.0838	0.1786	0.3251	**0.723**	0.3812	0.4307	0.3594
FC4k	0.1042	0.2488	0.1653	**0.7924**	0.3718	0.2	0.1971
IP3b	0.0234	0.3486	0.2902	0.3888	**0.727**	0.2461	0.2932
IP3d	0.0351	0.1953	0.3325	0.4214	**0.7768**	0.246	0.3089
IP3e	0.0104	0.2222	0.3418	0.4375	**0.7388**	0.2576	0.2967
IP3j	0.0013	0.2343	0.1985	0.4084	**0.7384**	0.3594	0.3483
IP3k	0.0041	0.2125	0.1949	0.3812	**0.6988**	0.1894	0.2576
ITR_Q8d	-0.0308	0.2744	0.082	0.3468	0.3066	**0.7628**	0.43
ITR_Q8e	-0.1146	0.3377	0.202	0.2801	0.2788	**0.8347**	0.5414
ITR_Q8f	0.022	0.2667	0.1768	0.2542	0.2813	**0.8247**	0.5991
ITR_Q8g	-0.0722	0.3019	0.0929	0.2761	0.275	**0.8128**	0.5972
LRN9e	0.096	0.2602	0.1644	0.3444	0.321	0.6123	**0.8228**
LRN9f	0.0319	0.3391	0.1148	0.2358	0.2977	0.5767	**0.8319**
LRN9g	0.0853	0.2922	0.1619	0.2581	0.2861	0.5154	**0.7534**
LRN9k	0.0334	0.3151	0.2781	0.1889	0.3835	0.4447	**0.7375**
LRN9l	0.0237	0.2434	0.2268	0.1956	0.3308	0.4889	**0.7822**

5.5.4 Formative construct – Adoption of SAKIP

The observable variables within the adoption of the SAKIP construct were selected based on supporting literature discussed in Chapter Four. The study also conducted several statistical validity tests that provided empirical evidence and support for the underlying theoretical basis. Firstly, the thesis measured the significance of observable measurements by examining each indicator's weight (Hair et al., 2011). Non-significant variables were removed from the construct. As a result, the study removed items ADP 6b and 6f. Secondly, the study conducted multicollinearity of the remaining indicators, where indicators with a variance inflation factor (VIF) score of less than 5 would be dropped from the construct. The result found that all remaining items had a VIF above the threshold. Table 5.19 provides the remaining items with significant scores.

Table 5.23: Formative variables – adoption of SAKIP construct

Observable variables	Weight contribution to ADP construct	t-stats
ADP6a	0.368	1.917
ADP6c	0.452	2.550
ADP6d	0.525	2.784
ADP6e	0.435	2.044

5.6 Evaluating the Structural Model

This section will present the results of the evaluation of the structural model. The primary purpose of the evaluation is to estimate the coefficient and the significance of the hypothesised causal model among latent variables that were compiled based on theoretical analyses and logical interpretation. The main criteria for the evaluation are the coefficient of the endogenous latent variables' variance (R^2) and the significance of the path coefficients. The R^2 is the measure that indicates the degree to which variance in a dependent/endogenous variable can be explained by the exogenous variables that predict it (Lowry and Gaskin, 2014). A higher R^2 value reflects a larger portion of the endogenous latent variables' variance explained by the exogenous ones. Despite there being no general rule for a minimum R^2 value, Hair et al. (2011) suggest that the rule of thumb of R^2 level can be different for specific research disciplines. The R^2 scores of 0.25 are considered weak in marketing research study but they are considered high in consumer behaviour research discipline. This study applied an R^2 of 0.10 as the minimum threshold suggested by (Santosa, Wei, and Chan, 2005).

Since PLS-SEM does not assume the normality of the data, it uses a nonparametric bootstrapping technique to assess the significance of the path coefficients. A nonparametric bootstrap procedure calculates the standard errors and t-statistics by randomly withdrawing a large number of subsamples from the original sample. The study used a re-sampling method of 5,000 samples (Hair et al., 2011). A significant path coefficient that showed an agreed expected sign was considered as empirical evidence that supported the hypothesised causal relationship. The critical t-values for a two-tailed test were 1.65 (significance level = 10%), 1.96 (significance level = 5%), and 2.58 (significance level = 1%).

5.6.1 Structural model results

The results of the PLS-SEM structural model evaluation are presented in Table 5.20. The table offers a summary of the evaluation of the structural model, including path coefficients and t-values. Strong and significant paths in the expected direction indicate support for the hypothesised path.

Table 5.24: Summary of path coefficients and significance levels

Hypotheses and corresponding paths	Expected signs	Path Coefficient	t-value	
External Pressures (EP) → Adoption of SAKIP (ADP)	+	0.211	1.82	*
Internal Pressures (IP) → ADP	+	0.193	1.97	**
Facilitator (FC) → ADP	+	0.216	2.17	**
Barrier (BR) → ADP	-	0.086	1.00	
ADP → Diagnostic Use (DIG)	+	0.081	0.74	
ADP → Interactive Use (IT)	+	0.290	3.40	***
DIG → Organisational Learning (LRN)	+	0.140	1.69	*
IT → DIG	+	0.341	4.25	***
IT → LRN	+	0.625	9.83	***

Significance path: t-stats >=2.58/***p<0.01; t-stats >=1.96/**p<0.05; t-stats >=1.65/ *p<0.1 (two-tailed). Statistical results were computed using bootstrapping method with 5,000 resampling.

As shown in Figure 5.1, the R^2 values for the endogenous variables indicate that the model explains the following constructs: (1) the model explains 47.5% of the variance in Organisational Learning (LRN) and 52.5% is unexplained - which is considered to be moderate, (2) the model only explains 8.4% of the variance in Interactive Use (IT), which is below the 0.10 minimum thresholds, (3) the model adequately explains 24.4% of the variance in the Adoption of SAKIP (ADP).

The R^2 results indicate that the model does not show a reasonable proportion of the

relationship between ADP and IT variables. The variance in the interactive use of SAKIP variable was not adequately explained by the adoption of SAKIP.
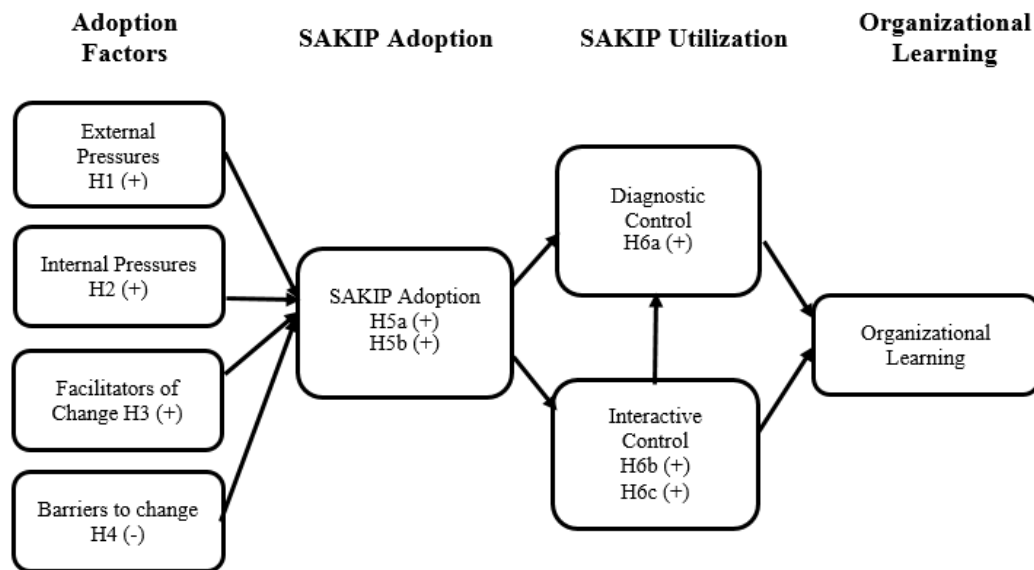

Figure 5.1: PLS structural model results – path coefficients

Significance path: t-stats >=2.58/***p<0.01; t-stats >=1.96/**p<0.05; t-stats >=1.65/ *p<0.1.
R^2: 0.67 = substantial, 0.33 = moderate, and 0.19 = weak

Figure 5.1 also describes a graphical relationship among the hypothesised latent variables and the significance of the relationship respectively. Following the R^2 assessment, this research also assessed the effect size (f^2) and the predictive relevance (Q^2 and q^2) of the structural model results. The f^2 is to measure the strength of a predictor latent variable on an endogenous construct (Hair, Hult, Ringle, and Sarstedt, 2017). The f^2 values of 0.02, 0.15, and 0.35 can be viewed as a weak, medium, or large impact of an exogenous construct on the endogenous construct. The Q^2 and q^2 are used to measure the predictive relevance of the model. The Q^2 values above zero indicate the model has predictive relevance and that the observer values are well reconstructed. On the other hand, the values of Q^2 below zero indicate a lack of predictive relevance. The q^2 values indicate the impact of the structural model on the observed measures (Henseler, Ringle, and Sinkovics, 2009). Table 5.21 provides the summary of the effect size and predictive relevance assessment.

Table 5.25 Summary of the effect size and predictive relevance assessment

Variable	IT		LRN					
	R2	Q2	R2	f2	Effect	Q2	q2	Effect
DIG				0.0286	Small		0.0236	Small
IT	0.084	0.0543		0.6381	Large		0.3002	Medium
LRN			0.475			0.2932		

As shown in Table 5.21, all endogenous constructs have Q^2 values above zeros. It provides evidence and support for the predictive relevance of the endogenous constructs in the SAKIP use and organisational learning model. The table also showed that the interactive use of SAKIP has a large effect ($f^2=0.6381$) in producing the R^2 for organisational learning ($R^2=0.475$). In contrast, the diagnostic use of SAKIP has only a small effect ($f^2=0.0286$) in producing the organisational learning's R^2. The interactive use also has better effect size ($q^2=0.3002$) and predictive relevance ($Q^2=0.2932$) for the organisational learning than the diagnostic use of SAKIP ($q^2=0.0236$).

The finding of each relationship is interpreted separately in the following sections.

5.6.1.1 Hypotheses H1

Hypotheses H1 investigates whether external pressures are positively related to the adoption of SAKIP in ILGs. The result in Table 5-20 (t-value = 1.82) reveals that there is a statistically significant relationship between external pressures and the adoption of SAKIP. In this research, ILG respond to the external pressures that require them to arrange ILGs' management control systems that meet with the MSAEBR regulations (indicator loading=0.79) and with other regulations related with the central's government funding (indicator loading=0.76). The ILG's decision to adopt SAKIP is also influenced by the public pressure to be perceived as a transparent, efficient and accountable organisation (indicator loading=0.73).

This result suggests that the external organisational factors can shape the process of change in ILGs. It is consistent with the study of institutional theory in the public sector where a new organisation's decision to adopt a new system is influenced by formal and informal pressures coming from other organisations (Akbar et al., 2012; DiMaggio and Powell, 1983; Kanter, 1972; Tsamenyi et al., 2006).

5.6.1.2 Hypotheses H2

Hypothesis H2 is concerned with the relationship between pressures from internal organisational factors and the adoption of SAKIP. It predicts that internal pressures are positively related to the adoption of SAKIP. As can be seen in Table 5.11, the path between the two variables is significant (t-value = 1.97) and in the predicted direction, providing full support for H2. The result suggests that pressures from the internal ILG environment and users of information have motivated the adoption of SAKIP. The result of the PLS-SEM analysis indicates that ILGs respond to the internal pressures that require them to have a tighter control over their expenditure (indicator loading=0.78) and provide better information in the budget preparation process (indicator loading=0.74). The ILG's decision to adopt SAKIP is also motivated by the ILG leaders demand to upgrade the monitoring system (indicator loading=0.74).

5.6.1.3 Hypothesis H3

Hypotheses H3 investigates whether facilitators of change are positively related to the adoption of SAKIP in ILGs. The PLS-SEM result in Table 5.11 shows that the path from facilitators of change to the adoption of SAKIP is significant (t-value = 2.17) and in the expected direction (positive). This result empirically suggests that the facilitators of change have a significant impact on the adoption of SAKIP in ILGs. In this research, it is revealed that: (1) the clarity of SAKIP's role in the local government's financial management system (indicator loading=0.80) and (2) the necessary culture and mindset within the ILG to support change (indicator loading=0.79) are two main factors that facilitate and bring direct influence on a successful change or reform. These findings were further explored in the qualitative stage by identifying institutional actors that play important roles in clarifying SAKIP position and shaping mindset within the ILGs. Finally, the statistical result shows that all exogenous latent variables have fairly similar moderate effect to the adoption, with the facilitator of change (FC) has the strongest linkage among them. This indicates the shift of pressures from EP that represents a coercive pressure to FC that represents normative pressure.

5.6.1.4 Hypotheses H4

The fourth hypothesis is concerned with the relationships between barriers to change and the adoption of SAKIP. Hypothesis H4 predicted that the barriers to change are

negatively related to the adoption of SAKIP in ILGs. However, the PLS-SEM does not support this hypothesis. The result in Table 5.11 reveals that the pairs are not significantly related and the path is not in the expected direction. It indicates that barriers of change do not have significant impact on the adoption of SAKIP in ILGs.

5.6.1.5 Hypotheses H5a and H5b

The fifth set of hypotheses examines the associations between the adoption of SAKIP and the extent of the styles of use of SAKIP in ILG. There are two possible paths that relate to the diagnostic and interactive use of SAKIP by ILG officials. Table 5.11 delivers mixed results from the PLS-SEM analyses. Hypothesis H5a predicted that the adoption of SAKIP is positively related to the use of SAKIP as a diagnostic control system. However, the PLS-SEM path analysis does not support this hypothesis. The results in Table 5.11 reveal that the pairs are not significantly related. It indicates that the adoption of SAKIP does not have a significant impact on the use of SAKIP as a diagnostic control system in ILGs. Based on the outer weight analysis of the adoption of SAKIP (ADP), it can be identified that the use of current year output to determine the next year appropriation has the lowest outer weight (0.368). Therefore, it is indicated to be the major factor that contributes to the insignificant path of the relationship between the adoption of SAKIP and the diagnostic control system. The other contributing factor is the ILGs' inability to fully implement a set of criteria for good performance indicators (0.435).

Hypothesis H5b predicted that the adoption of SAKIP is positively related to the use of SAKIP as an interactive control system. Contrary to the result for hypothesis H5a, the PLS-SEM results for hypothesis H5b in Table 5.11 show that the path from the adoption of SAKIP to the interactive use of SAKIP is significant (t-value = 3.40) and in the expected direction (positive). The result empirically suggests that the adoption of SAKIP has a significant impact on the use of SAKIP as an interactive control system in ILGs. Based on the ADP outer weight analysis, it can be identified that reviewing ILGs' outcome by the parliament and the mechanism to review the validity of performance indicators used in SAKIP contribute to the significant path of the relationship between ADP and the interactive use. On the other hand, the low R^2 values for the interactive use variables (R^2=0.08) does not allow the model to provide a convincing explanation for any variance in the interactive use of SAKIP.

The non-significant association between the adoption and the diagnostic use of SAKIP; and the very weak effect size that below the prerequisite threshold between the adoption and the interactive use of SAKIP indicate that the adoption of SAKIP does not lead to an effective utilisation of SAKIP.

5.6.1.6 Hypotheses H6a, H6b, and H6c

The last set of hypotheses examines the associations between the styles of use of SAKIP in ILGs and the organisation's orientation to learning. Hypothesis H6a predicted that the emphasis ILGs place on the use of SAKIP as a diagnostic control system is positively associated with an organisation's orientation to learning. In this research, SAKIP is diagnostically used for: (1) tracking progress toward goals (indicator loading=0.89), (2) monitoring results (0.89), (3) comparing outcomes to expectations (0.88), (4) reviewing key measures (0.89), and developing a common vocabulary for strategy and program priorities (0.88). The PLS-SEM result in Table 5.11 shows that the path from the diagnostic use of SAKIP to the organisational learning is significant (t-value = 1.69) and in the expected direction (positive). This result empirically suggests that the diagnostic use of SAKIP can facilitate ILGs' orientation to generate organisational learning.

Hypothesis H6b predicted that the emphasis ILGs place on the use of SAKIP as an interactive control system is positively associated with an organisation's orientation to learning. The PLS-SEM result in Table 5.11 shows that the path from the interactive use of SAKIP to organisational learning is significant (t-value = 9.83) and in the expected direction (positive). In this research, SAKIP is used interactively by top managers who: (1) interpret information from the SAKIP system (indicator loading=0.83) and (2) pay daily attention to the SAKIP system (0.82). This result empirically suggests that the interactive use of SAKIP can facilitate ILGs' orientation to generate organisational learning. The result in Table 5.21 reveals that the interactive use of SAKIP has a better effect size and predictive relevance for the organisational learning than the diagnostic use.

Hypothesis H6c predicted that the emphasis ILGs place on the use of SAKIP in an interactive control system is positively associated with the emphasis they place on the use of SAKIP in a diagnostic control system. The PLS-SEM result in Table 5.11 shows that the path from the interactive use to the diagnostic use of SAKIP is significant (t-

value = 4.25) and in the expected direction (positive). This result empirically suggests that the interactive use of SAKIP can influence the diagnostic use of performance measures embedded in SAKIP.

The result of the PLS-SEM analysis also identified two indicators: (1) formal mechanisms to share best practices among different fields within ILGs (indicator loading=0.83) and (2) periodic meeting to inform all employees regarding the latest innovation (indicator loading=0.82) as the two main indicators of perceived organisational learning. Since the two indicators only focus on the distribution of knowledge, the ILGs' capability to learn will be further explored in the qualitative stage. The qualitative stage would identify activities taken by ILGs to use the collected and shared information in order to change the organisation structure and process.

5.6.2 Control group analysis

The statistical analyses in the previous section have used all respondent data to test the R^2 and the significance of hypothesised relationship. In order to provide richer explanation to the findings, this section further analysed the significant path of the hypothesised relationship by dividing the data into five control groups and statistically comparing each significant path within the group. In management accounting literature, it is common to analyse path relationships based on control group membership such as type of organisations, location or organisation size. Past research in ILGs used these control variables to describe the relationship between core variables and ILG characteristics (Akbar et al., 2012).

Based on the ILG characteristic, the sample data were divided into four control groups: (1) academic qualification, (2) current position working experiences, (3) location, and (4) ILG's financial independence ratio.

5.6.2.1 Academic qualification

Previous research in ILGs reported that there has been a growing number of universities that offer new degree programs in public administration/management as a response to the ILGs' growing demands for more qualified staff in the performance management fields (Akbar et al., 2012). Questions 5 and 6 in Part C of the survey asked respondents for their highest academic qualification and the field of study of their qualification.

Based on their responses, the sample data were divided into undergraduate and postgraduate control groups.

5.6.2.2 Current position working experience

Current position working experience refers to the duration of time the respondent has been working in the position that holds him/her responsible for maintaining SAKIP. The information on a respondents' SAKIP-related experience was captured in question 9 in Part C of the survey. Based on their responses, the sample data were divided into less than 2 years and more than 2 years of current position working experience.

5.6.2.3 Location

Following previous PMS studies in ILGs, the research divided the sample data into respondents from Java and ones from non-Java as the location control group comparison. Java was selected because it is the most populated island in Indonesia, while non-Java was islands spread over the Indonesian archipelago.

5.6.2.4 ILGs' financial independence ratio

ILGs' financial independence ratio is an indicator used by the Ministry of Finance that determines the degree of local governments' ability to rely on their own revenue and/or on the central government's transfer fund in funding their programs and activities. The ILGs' financial independence ratio data were gathered from the website of the Ministry of Finance and downloaded on 17 April 2014. The sample data were divided into "high" for ILGs with self-revenue ratio greater than 8.6% and transfer fund ration below 79%. ILGs falling into this category are considered to have relatively high revenue and less reliance on the central government's transfer fund. On the other hand, ILGs with a low financial independence ratio depend more on the central government transfer money to fund their program and activity.

5.6.2.5 Multi-group moderation tests

To provide empirical evidence in the control group comparison, multi-group moderation tests for significant path were conducted. The thesis used the formula provided by Chin (2000) to calculate the t-statistic for the difference between the groups. The formula requires the regression weight, and standard errors from the path being tested.

$$t = \frac{Path_{sample\_1} - Path_{sample\_2}}{\left[\sqrt{\dfrac{(m-1)^2}{(m+n-2)} * S.E._{sample1}^{2} + \dfrac{(n-1)^2}{(m+n-2)} * S.E._{sample2}^{2}}\right] * \left[\sqrt{\dfrac{1}{m} + \dfrac{1}{n}}\right]}$$

Table 5.26 Moderated mediation test. Interactive use on organisational learning

Group Comparison based on		Sample size	IT → DIG à LRN	
			t-stat	p-value
Education	Undergraduate	63		
	Post-graduate	97	**3.790**	*0.000***
Experiences	0–2 years	72	0.732	0.465
	> 2 yrs	84		
Location	Java	45	0.620	0.536
	Non-Java	120		
Funding Independence Ratio	High	54	0.949	0.297
	Low	111		

Table 5.27: Summary of significant group comparisons

Group Comparison based on		Sample size	Paths EP à ADP		IP à ADP		FC à ADP		ADP à IT		DIG à LRN		IT à DIG		IT à LRN	
			t-stat	p-value	t-stat	p-value	t-stat	p-value	t-stat	p-value	t-stat	p-value	t-stat	p-value	t-stat	p-value
Education	Undergraduate	63	**1.721**	*0.087**	1.097	0.274	**3.621**	*0.000***	**1.692**	*0.093**	**4.401**	*0.000***	1.532	0.127	**5.802**	*0.000***
	Post-graduate	97														
Experiences	0–2 years	72	**2.098**	*0.038***	1.065	0.288	0.160	0.895	1.131	0.260	0.782	0.435	0.386	0.700	0.772	0.441
	> 2 yrs	84														
Location	Java	45	1.288	0.199	1.142	0.255	0.322	0.748	**1.899**	*0.059**	0.899	0.370	0.464	0.643	0.868	0.387
	Non-Java	120														
Funding Independence Ratio	High	54	**2.187**	*0.030***	1.510	0.133	0.302	0.763	**1.787**	*0.076**	1.582	0.116	1.321	0.188	1.294	0.198
	Low	111														

The results of the multi-group moderation test are shown in Table 5.21. The results of the test suggested the following points:

1. The association between external pressures and the adoption of SAKIP

   The results in Table 5.21 showed that the effect of external pressures on the adoption of SAKIP (EP → ADP) is significantly stronger for ILGs officials whose highest education level was an undergraduate degree. It also showed a significantly stronger effect for those who had less than 2 years of SAKIP-related working experience. The findings suggest that experience and formal education are factors that determine ILG behaviour when responding to external pressures to secure legitimacy. ILGs with less experience and less knowledgeable officials tend to rely more on compliance with SAKIP-associated regulations as their way to show improved accountability and gain social legitimacy.

   The effect of external pressures on the adoption of SAKIP is also stronger for ILGs with low funding independence ratio. It indicates that a high reliance on central government funding is still an important factor that drives organisations to accommodate external pressures from the central government.

2. The association between facilitator of change and the adoption of SAKIP

   Table 5.21 shows that the effect of facilitator of change on the adoption of SAKIP (FC → ADP) is significantly stronger for ILG officials with a postgraduate degree. As Upping and Oliver (2012) included education as one major element of communicators for change, the finding implies that education is a significant factor in better responding to normative pressures.

3. The association between the adoption and the interactive use of SAKIP

   The multi-group moderation test result indicated that the association between the adoption and the interactive use of SAKIP (ADP → IT) is influenced by the senior officer's level of education, the ILG's location and the ILG's degree of reliance on central government funding. Table 5.21 showed that the effect of the adoption of SAKIP on the interactive use of SAKIP is significantly stronger for ILGs located in-Java. The moderation effect is also stronger for ILGs with a high funding independence ratio. Lastly, the effect is stronger for ILGs officials with an

undergraduate degree.

4. The association between the diagnostic use of SAKIP and organisational learning

The results indicated that the association between diagnostic use and organisational learning (DIG → LRN) is moderated by the SO's educational attainment. Table 5.21 showed that the effect of the diagnostic use of SAKIP on organisational learning is significantly stronger for ILG officials with an undergraduate degree.

5. The association between the interactive use of SAKIP and organisational learning

The results indicated that the association between the interactive use of SAKIP and organisational learning (IT → LRN) is moderated by educational background. The test results in Table 5.21 showed that the effect of the interactive use of SAKIP on organisational learning is significantly stronger for ILG officials with a postgraduate degree.

5.6.2.6 Moderated mediation test: interactive use to learning

The thesis also performed a moderation mediation test that examined whether the effect of the interactive use of SAKIP on organisational learning, mediated by the diagnostic use of SAKIP, is significantly different for each category in control groups. The test used the same formula provided by Lowry and Gaskin (2014) to calculate the t-statistic for the difference between the groups. The only difference is that the test used the regression weight and standard error for the total effects of path from the interactive use of SAKIP to organisational learning. Table 5.22 offers the results of the moderated mediation test. The results indicate that the mediated effect (i.e., the diagnostic use of SAKIP) is stronger for officials whose highest academic qualifications were postgraduate degrees.

5.7   Summary

This chapter has presented the description and analysis of the data obtained from the mail questionnaire survey. It also has tested the measurement model and the structural model of the study using PLS-SEM analysis. Out of nine hypotheses tested, seven were supported and two were rejected. The external pressures, internal pressures, and facilitators of change were found to positively influence the adoption of SAKIP. The

barriers to change was not found to have a significant effect on the adoption of SAKIP. The adoption of SAKIPs was not found to have a significant effect on the diagnostic use of SAKIP. However, it was found to significantly influence the interactive use of SAKIP with R^2 below the 0.10 minimum thresholds. Lastly, the interactive use of SAKIP was found to positively influence the diagnostic use of SAKIP, and both the diagnostic and interactive use of SAKIP were found to positively influence organisational learning.

In addition to the nine hypotheses tested, PLS-SEM analysis revealed the results of the control group comparison test for significant paths. The results indicated that the effects between unobserved variables on significant paths are significantly stronger for one category than the other. The control group comparison analyses revealed several significant relationships provided richer explanations for the proposed hypothesised relationships and the structural model. These findings and their implications are explored in greater detail in Chapter Seven. The next chapter discusses the qualitative data collection and analysis using thematic content analysis. The qualitative analysis will elaborate on the weak relationships between the adoption and use of SAKIP. Furthermore, the qualitative analysis will focus on: (1) finding the reasons behind ILGs' decision to adopt SAKIP but not to use it as the diagnostic tool to control the organisation; (2) finding other factors that affect the ILGs' decision to use SAKIP as the interactive control system; (3) finding the impact of the weak relationship on ILGs' organisational learning capabilities. The qualitative phase will also include the results from the control group comparison analyses in identifying isomorphic pressures surrounding the adoption and use of SAKIP.

Chapter 6: **Qualitative Results and Analysis**

6.1   Introduction

The previous chapter discussed empirical findings from the survey to answer research questions employing a quantitative approach. Descriptive statistics and PLS-SEM were used in the analysis to test each hypothesis. The results identified factors that are significant to SAKIP adoption and to the ILGs' organisational learning capabilities. The quantitative analysis showed that external pressures, internal pressures, and facilitators of change were found to positively influence the adoption of SAKIP. The adoption of SAKIP was not found to have a significant effect on the diagnostic use of SAKIP. It was found to significantly influence the interactive use of SAKIP variable, but with a weak explanation with the variance. Lastly, the interactive use of SAKIP was found to positively influence the diagnostic use of SAKIP; and both the diagnostic and interactive use of SAKIP were found to positively influence organisational learning. The quantitative analysis also indicated the existence of isomorphic pressures, coercive, mimetic, and normative, in the adoption and utilisation of SAKIP.

This chapter examines evidence collected from the interviews by highlighting patterns, themes and elements that explain the significant relationships among variables identified in the quantitative stage. The theoretical framework and quantitative findings shape the qualitative research stage by providing an outline that connects the identified themes. The results are described and discussed according to the thesis's research questions. The major reason for conducting the qualitative stage was to obtain evidence on the impact of institutional isomorphism on the use of SAKIP and how it impacts ILGs' learning capabilities.

This next section explains the interviewees' selection process and profiles. Section 6.3 discusses the results of the qualitative study, whereby the factors influencing the adoption of SAKIP in ILGs, the relationship between the adoption and the utilisation of MCS in ILGs, and SAKIP's impacts on ILG learning capabilities are presented. Finally, Section 6.4 draws conclusions from the findings in this chapter.

6.2   The Interviewees' Selection Process and Profile

Interviews were performed with selected officials from ILGs. The list of potential

interviewees was obtained during the quantitative phase. During the survey distribution, a research form stating the ILG official's willingness to participate in the interview was included in each package. As many as 112 ILG officials indicated their willingness to participate in the interview. In order to gain a deeper understanding regarding the utilisation of SAKIP and its impact on organisational learning, the selection of the interviewees considered the diversity of the Indonesian population's characteristics. A purposive sampling was used to select 20 participants from the list. The participants were selected based on the type, location, and size of the ILGs in order to have a relatively balanced representation in the samples. The ILG SAKIP score was also among the selection criteria in order to identify organisational characteristics and factors that affect ILGs with a high SAKIP score and ILGs with a lower score.

In order to protect the identity of the interviewees, all information that may directly be linked to the ILGs and interviewees was made anonymous. Pseudonyms replaced ILGs' names by using the code L# in the process of studying and describing the data.

The interviewees for this research were managers from Indonesian local governments who were responsible for the implementation of SAKIP. In general, there are two departments in ILGs that share a role in SAKIP's implementation. The first department is called the Organisation Administrative department (OAD). The OAD is the leading sector in preparing the ILG's consolidated performance report to be submitted to the MSAEBR by the end of March every year. The OAD's role is to ensure all departments within an ILG prepare their performance report by the end of February every year and to prepare a consolidated ILG performance report by the end of May. The second department is the Internal Audit department (IA). The IA department's role is to review all departments' performance reports. The consolidated performance report and the evaluation result are submitted to the MSAEBR by the end of March every year.

The size of the ILGs that participated in the interviews varies from a total budget of less than Rp1.0 trillion to a total budget of over Rp50.0 trillion. The area of the ILGs is also varied, from an area of less than 50 km^2 to an area sized over 40,000 km^2. From 20 interview participants, 10 ILGs are located in Java islands and the other 10 are located out of Java islands. Table 6-1 presents the profiles of the qualitative research respondents.

Table 6.1: Interviewee profile

ILG	Division	Type	Score	Location	Population	Size (km^2)	Budget*
L1	OA	District	**A**	In Java	2,035,111	5,782.40	2,802,183.00
L2	OA	City	**A**	In Java	2,341,097	167.67	7,214,820.00
L3	IA	City	**BB**	In Java	321,154	48.25	1,236,100.00
L4	OA	Province	**BB**	Out of Java	4,165,115	5,780.06	5,704,727.00
L5	OA	District	**BB**	In Java	963,526	508.13	2,223,664.00
L6	IA	District	**B**	Out of Java	444,789	839.54	1,811,460.00
L7	OA	District	**CC**	In Java	1,013,084	677.50	1,823,605.00
L8	OA	District	**C**	Out of Java	73,647	42,620.70	1,829,692.00
L9	OA	Province	**B**	In Java	9,988,495	664.01	59,945,523.00
L10	OA	District	**C**	Out of Java	304,689	3,791.64	1,304,677.00
L11	OA	District	**BB**	In Java	417,473	586.28	1,477,685.00
L12	OA	District	**CC**	Out of Java	133,092	1,357.03	953,966.00
L13	OA	District	**B**	In Java	1,408,089	2,198.79	3,864,897.00
L14	OA	District	**C**	Out of Java	313,607	5,302.86	1,513,507.00
L15	OA	District	**CC**	In Java	1,420,643	1,386.05	2,889,597.00
L16	OA	District	**B**	Out of Java	655,876	23,601.91	6,980,371.00
L17	OA	District	**B**	In Java	806,941	1,431.42	1,758,139.00
L18	OA	District	**B**	Out of Java	257,763	2,391.54	1,123,476.00
L19	OA	District	**B**	Out of Java	518,695	1,804.30	1,534,101.00
L20	OA	District	**B**	Out of Java	259,388	912.75	994,909.00

Note: *IDR millions

As explained in Chapter Four, semi-structured interviews were conducted in order to acquire information from the participants about the adoption and use of SAKIP in their institutions. Interviews began with open-ended questions such as, "What aspects of the performance reports are top ILG officials mostly interested in", "What is the central agencies' main focus when they review ILG's performance reports", and "What is the main factor that drives ILGs to use/not SAKIP". Thematic follow-up questions were asked based on answers provided by the participants. The first few interviews were more open-ended and broader that the latter ones. As themes started to arise from earlier interview sessions and from data analysis, the subsequent interviews became more directed. The interviews were carried on until no new themes and interconnections between the themes emerged. The full guide of open-ended questions used during the interviews is provided in Appendix B at the end of this thesis. The coding was conducted by using Microsoft Excel software. Interview transcripts were arranged according to the classified themes. The quotations used in this thesis were extracted from the interview transcripts in order to clarify the findings and to add value to the

analysis result.

6.2.1 Interviewees' SAKIP score profile

During the interviews, the ILGs' SAKIP score was gathered from the MSAEBR and the breakdown of the score was gathered directly from the ILGs. There were three ILGs that refused to provide the scoring breakdowns. Therefore, the details of their score components were not available to be used. Table 6.2 presents the components of the SAKIP scores.

Table 6.2: Interviewees' SAKIP score profile

| ILG | Performance Scoring Components | | | | | Score |
	Planning (30)	Measurement (25)	Reporting (15)	Evaluation (10)	Achievement (20)	
L1	89.50	79.08	86.20	83.40	61.15	A
L2	82.73	82.68	79.27	74.70	78.80	A
L3	82.10	71.36	77.40	71.70	64.00	BB
L4	83.00	66.56	74.07	83.20	77.45	BB
L5	78.13	70.56	74.67	63.80	75.00	BB
L6	69.93	60.00	68.27	60.10	55.10	B
L7	59.47	38.20	59.73	56.20	40.30	CC
L8	52.57	19.96	69.00	63.90	48.40	C
L9	69.50	46.52	68.07	60.60	56.90	B
L10	35.07	12.20	52.33	35.00	39.35	C
L11	78.80	67.28	68.47	61.20	73.60	BB
L12	58.23	49.00	64.73	28.30	41.15	CC
L13	68.33	53.92	72.53	44.20	62.30	B
L14	40.30	25.88	36.07	30.40	39.35	C
L15	59.60	35.52	63.53	41.90	57.50	CC
L16	74.63	54.84	64.53	59.30	71.95	B
L17	66.00	54.28	65.93	47.10	63.15	B
L18	N/A	N/A	N/A	N/A	N/A	C
L19	N/A	N/A	N/A	N/A	N/A	B
L20	N/A	N/A	N/A	N/A	N/A	B

The SAKIP score consists of 5 components and each component has a different apportioned contribution to the total score. Every component has a list of questions used to measure how well ILGs have met the criteria. There are several types of questions, with different scoring criteria for each type of question. The first type is a question with a "Yes" or "No" answer. One point is given for every "Yes" answer with zero points for

a "No" answer. The other type of question required the assessor's professional judgement to give a score. If an assessor believed that an ILG has showed sufficient evidence to respond to 80% of the question, one point is given. The point given will get lower accordingly if there is only evidence to respond to a smaller portion of the question. Table 6.3 presents the complete SAKIP scoring criteria.

Table 6.3: Types of questions

Type of Questions	
Type 1: General question	Scores
1 Assessor is satisfied with 80%−100% of the answers.	1
2 Satisfied 60%−80%	0.75
3 Satisfied 40%−60%	0.50
4 Satisfied 20%−40%	0.25
5 Satisfied <20%	0
Type 2: Yes or No question	Scores
1 Yes	1
2 No	0
Type 3: Current performance achievement	Scores
1 KPI achieved >100% from the target.	1
2 KPI achieved = 91%−100%	0.75
3 KPI achieved = 61%−90%	0.50
4 KPI achieved = 40%−60%	0.25
5 KPI achieved <40%	0
Type 4: Performance achievement compared to last year's	Scores
1 KPI achieved >100% from last year performance	1
2 KPI achieved = 100%	0.75
3 KPI achieved = 91%-99%	0.50
4 KPI achieved = 60%−90%	0.25
5 KPI achieved <60%	0

After all answers have been acquired, the assessor tallies up all scores and multiplies the total scores by the proportion that applies for each component. The complete scoring breakdown for all components can be seen in Table 6.4:

Table 6.4: SAKIP scoring elements

Components		Weighted	Document	Quality	Utilisation
SAKIP	A. Performance Planning	80%			
	1. Strategic Plan Documents		10%	2%	5%	3%
	2. Annual Plan Documents		20%	4%	10%	6%
	B. Performance Measurement		25%	5%	12.5%	7.5%
	C. Performance Reporting		15%	3%	7.5%	4.5%
	D. Internal Evaluation		10%	2%	5.0%	3.0%
Performance	Performance Achievement	20%	5%	Output achievement		
			10%	Outcome		
			5%	Other achievement		

6.2.1.1 Component 1: performance planning (30%)

The first component is the performance planning score, which contributes 30% of the total score. The evaluation process for this component is mainly the reviewing of information in strategic and annual plan documents. Under the SAKIP system, a strategic plan is a five-year planning document that should have an ILG's vision, mission statement, and a set of key elements that are objectives, goals, programs, and activities. The main focus of evaluating this component is to ensure: (1) there are logical cause–effect relationships between the ILG's objectives or goals and activities that are in place; (2) high-quality outcome or output KPIs are used for each of the key elements; (3) a strategic plan is used in preparing an annual plan; (4) the periodic review of the strategic plan is in place; and (5) the strategic plan document is published and visible to the public.

An annual plan is a planning document that contains organisational goals, annual programs, key performance indicators, performance contracts for heads of divisions and managers, and action plans to implement performance contracts. Almost similar to the strategic planning evaluation, the main focus of evaluating annual performance planning is to ensure (1) the annual performance plan document is published and visible to the public; (2) the use of high-quality outcome or output KPIs for goals and programs; (3) the annual performance plan is used in the budget cycle; (4) individual performance contracts or agreements for heads of divisions and managers are in place; (5) action plans are implemented and regularly monitored.

6.2.1.2 Component 2: performance measurement (25%)

The second component is the performance measurement score, which contributes 25% of the total score. The evaluation process for this component is mainly reviewing the process of measuring performance in an ILG. The main focus of evaluating this component is to ensure: (1) KPIs are formally used in the organisation to measure the performance of ILGs' heads of divisions and managers; (2) there is a formal mechanism to collect and validate performance indicators for each level in the organisation; (3) the use of high quality KPIs that meet with the prescribed criteria, that align with the organisational goals and programs, and that are linked with the corresponding action plan; (4) KPIs are published and visible to public; (5) KPIs are regularly collected and monitored; (6) there is a *reward and punishment* system in place relating to KPI achievement.

6.2.1.3 Component 3: performance reporting (15%)

The third component is the performance reporting score, which contributes 15% of the total score. The evaluation process for this component is mainly reviewing the process of reporting on performance in ILGs. The main focus of evaluating this component is to ensure that the performance report: (1) is prepared on time and published on the website; (2) provides information regarding performance achievement and money spent to achieve performance targets; (3) is utilised to improve an ILG's programs and activities; (4) is used to evaluate staff performance.

6.2.1.4 Component 4: internal performance evaluation (10%)

The fourth component is the internal evaluation assessment, which contributes 10% of the total score. The evaluation process for this component is mainly reviewing the performance evaluation process in an ILG. The main focus of evaluating this component is to ensure: (1) there is a formal, internal performance and program evaluation process in an ILG; (2) the performance and program evaluation is applied to the ILG's programs and action plans; (3) the evaluation's results and recommendations are followed up by all divisions.

6.2.1.5 Component 5: performance achievement (20%)

The final component is the performance achievement score, which contributes 20% of the total score. The evaluation process for this component is mainly reviewing the

performance of the ILG's outcome and output performance indicators and by assessing the reliability of the performance information.

6.2.1.6 Redundancy/multiplicity in SAKIP scoring elements

It can be seen that there is an emphasis on several performance factors that leads to redundancy in the score given due to repeated scoring given to similar items. The alignment among planning documents, the use of reliable performance indicators, and the utilisation of performance information are three major items that are assessed and scored repeatedly within the same and in different components. The alignment among planning documents are evaluated repeatedly within the performance-planning component. The use of reliable performance indicators is numerously used as a scoring element in the performance planning, performance measurement, and performance reporting components. The utilisation of performance information is assessed repeatedly in all components except in the performance achievement component.

Arithmetically, the redundancy in the scoring components has created a significant chunk of points that can be exploited only by providing the required documents. Most ILGs that identify this condition have improved their score by merely focusing on fulfilling the documentation requirements in these particular components. Several ILGs have improved their SAKIP scores significantly from "C" to "B". As two respondents mentioned:

> *"Alignment gives (us) a big score. The MSAEBR helped us to identify planning documents that needed to be aligned."* (L19)

> *"the main thing is to achieve 'CC' by completing the required documents. The performance evaluation and performance achievement components are for ILGs with A and B scores."* (L4)

6.2.2 Interviewees ILG Profiles

In order to provide a better context for the interview's results, this section elaborates the ILGs' profile of the qualitative research respondents by using several statistical tools to describe each scoring component. Several statistics analyses have been performed to identify possible correlation between a score's components and an ILG's organisational characteristics. The first statistical analysis is the descriptive statistical analysis that will provide overview information regarding the mean, median and standard deviation of the

respondents' SAKIP scores. Table 6.5 presents the descriptive statistic of the respondents' SAKIP scores.

Table 6.5: Descriptive statistic of SAKIP score

	Performance Scoring Components					
	Planning	Measurement	Reporting	Evaluation	Achievement	Total Score
Mean	67.52	52.23	67.34	56.76	59.14	59.43
Median	69.50	54.28	68.27	60.10	61.15	61.17
Std Dev	14.75	19.87	10.91	16.37	13.29	14.31
Min. Value	35.07	12.20	36.07	28.30	39.35	30.95
Max. Value	89.50	82.68	86.20	83.40	78.80	80.61

From Table 6.5, it can be seen that the sample represents the population by including ILGs with varying of SAKIP scores. In 2016, the MSAEBR reported that the average SAKIP score for ILGs was C (Jajeli, 2017). In general, the respondents have better scores in the performance planning and performance reporting components. The statistical result also shows that ILGs scored lower in the measurement and evaluation components than in other components. Based on the statistical result and SAKIP scoring component analysis, it can be seen that ILGs focus more on getting evaluation points from components that place emphasis on providing documents and less on getting points from components that require ILGs to create new routines such as measuring performance or evaluating internal performance. The result also shows that measuring performance is still not a common routine in ILGs despite the SAKIP initiative was introduced 16 years ago. On the other hand, ILGs are more comfortable with the reporting requirement of SAKIP, which indicates ILGs' tendency to meet requests from the central agencies. Eighty-five percent of respondents indicate that various performance information templates issued by various ministries should be combined because they are essentially covering the same information.

The second statistical analysis was to seek the impact of ILG location on each of the SAKIP score components. The statistical result shows that there is no significant impact of the respondent's location (i.e., in Java or out of Java) on the achievement of each score component. This result is in line with the PLS-SEM analysis in Chapter 5 that showed location was not a significant factor that determined ILGs' decision to adopt SAKIP. In contrast with previous research that considered the location on the Java

Island as a favourable factor for SAKIP's adoption and implementation (Akbar, 2011), this result showed that it is no longer a factor after 16 years of its implementation because all ILGs have fairly similar knowledge about SAKIP and its implementation. The result also indicates that the MSAEBR has provided relatively similar support and assistance for ILGs regardless of their location in Indonesia.

The final statistical analysis performed is to seek a correlation between the total SAKIP score and the ILGs' population, area size, and budget size. The result of the statistical analysis shows that only the population variable has a significant correlation with the SAKIP score. On the other hand, the area and the budget sizes of the ILGs do not have significant correlation with the SAKIP score. The result of the correlation analysis indicates that financial resource and the size of the ILG's administrative area do not play a key role that affects SAKIP implementation in ILGs. Population becomes an important factor in SAKIP implementation because the ILGs may need SAKIP to assist in evaluating more complex programs launched to tackle increasing social matters that came from the increasing population. The findings from this statistical analysis will be used to explain factors influencing the adoption and utilisation of SAKIP in ILGs.

6.3   Qualitative Results

This section discusses the findings from the second stage of the study – the qualitative method. The purpose of the qualitative study was to confirm results from the quantitative stage and to comprehensively gain participants' thoughts and views regarding institutional pressures surrounding the relationship between the adoption and utilisation of SAKIP and organisational learning. The interviews gave a direction to answer the fourth research question: "Do the isomorphism mechanisms of institutional theory aid in explaining the utilisation of a centralistic MCS as local governments' attempt to comply with the associated regulations?"

As mentioned in Chapter Two, previous researchers have identified the existence of institutional isomorphism regarding the adoption of SAKIP in ILGs. However, how the three types of isomorphic pressures shape ILG behaviour in utilizing SAKIP as a means to achieve organisational learning capabilities in Indonesian local government is still not clear. Organisational learning is defined as the capacity of an organisation to collect, interpret, share, and recall knowledge. Organisations may use performance feedback to have a better understanding of the current environmental change and to adapt to new

challenges by modifying their structure, procedures or strategy. This study will identify the interplay among institutional isomorphism to investigate the context and purpose that shape ILG learning capabilities (learning process and outcomes) after having been implementing SAKIP for almost 16 years.

6.3.1 Factors influencing the adoption of SAKIP in ILGs

The following sections present the factors influencing the adoption of SAKIP in ILGs. The results show the interplay of exogenous and endogenous factors that promote the adoption of SAKIP in all ILGs. Table 6.6 highlights the interview results regarding factors that influence ILGs in adopting SAKIP.

Table 6.6: Highlights of SAKIP's adoption actors

Factors	Elements	Total Responses
External Pressures	Presidential regulations	20
	MSAEBR regulations	20
	MSAEBR guidelines	14
	Political pressures	2
	Penalties	8
Internal Pressures	Organisation Administrative department	16
	Internal audit department	10
	Planning department	2
	Top management want to change the system	8
	Prestige	6
Facilitators of Change	Promoter: The MSAEBR	20
	Promoter: The BPKP	13
	Producer of information: Management commitment	11
	Communicator: The MSAEBR and the BPKP	6
Barriers	Lack of supportive culture and mindset within the ILGs	4

As can be seen in Table 6.6, there are four factors that influence the adoption of SAKIP in ILGs. From Chapter Four, it was found that external pressures, internal pressures, and facilitators of change are significantly correlated with the adoption of SAKIP. Despite it not being found to be statistically significant, barriers to the adoption of SAKIP is still included in the analysis to add more dimension in explaining the connection between the adoption and the use of SAKIP.

6.3.1.1 External pressures

Prior to 1998, ILGs were part of government entities that operated under a centralised authoritarian government administration for four decades. During this time, the central government was very dominant to the point that it had more controlling power than the parliament. Regulations issued by central government agencies were always followed by ILGs. After the fall of Suharto in 1998, the government system was transformed into a more decentralised democratic government that gave autonomy to ILGs to govern. However, it did not promptly remove the controlling power possessed by central government agencies. Despite ILGs now having more freedom, regulations from central government agencies still have strong and binding coercive powers that require ILGs to pay attention to fulfilling them.

In this thesis, external pressures refer to organisational factors that can shape the process of change. In discussing external pressures surrounding the adoption of SAKIP, all of the ILG officials (100%) acknowledge the role of SAKIP's regulation and periodic guidelines issued by the MSAEBR as factors that mainly drove them to adopt and implement SAKIP. Most interviewees acknowledge that despite there being no financial consequence for failing to adopt SAKIP, the instructions issued in the form of the MSAEBR regulations have given them no choice but to and comply with them (L10, L19). As one respondent mentioned:

> *"(…) The reason why we adopt SAKIP is because of the presidential regulation and the MSAEBR regulation that require us to do so. We do not want to receive any warning or be in a difficult situation if we do not apply it"*(L4).

Another coercive power possessed by central government agencies, including the MSAEBR, is the ability to provide a warning note to an ILG that fails to comply with their regulations. Since all ILGs' leaders are elected officials, such a note is sufficient to make them pay more attention to SAKIP or they may lose face if the MSAEBR brings up the issue in any national-scale meeting or event. For some ILGs leaders, "losing face" carries a big political price that may harm their opportunity to be re-elected in the next term. As one interviewee put it,

> *"SAKIP came to us in the form of regulations. Therefore, we need to implement it. Otherwise, the Regent will lose face if we receive a warning from the MSAEBR for failing to do it"* (L19).

Contrary to previous research, the interviewees revealed that there is no financial consequence if an ILG failed to implement SAKIP or to submit an annual performance report. There has been a continuous threat from the MSAEBR to cut funds from the central government if ILGs fail to adopt SAKIP or perform poorly. However, all of the threats stop at the newspaper headlines and discussions. None of them has been implemented in any regulation or formal letter issued by the MSAEBR. ILGs have learned that such threats to cut transfer funding from the central government to ILGs will never come into effect due to the complicated political aspects surrounding the issue. The worst-case scenario is the fund would be delayed, but not stopped. As acknowledged by one interviewee,

> *"last year the MOF decided to cancel a portion of the transfer fund due to the national budget deficit. However, it did not take long until they changed the word from 'cancelling' into 'delaying'"* (L11).

Another interviewee noted:

> *"Until now, there has been no consequence if we fail to submit a performance report. The MSAEBR has been developing ideas about it. However, no decision regarding a penalty has been made."* (L4)

When discussing pressures from other external users of information, such as politicians or parliamentary committees, the interviewees disclosed that none of those possible external users of information used SAKIP as in an attempt to satisfy voters' needs and to remain politically competitive. There are two reasons that can explain the lack of pressure from the local parliament to submit SAKIP. The first one is that ILGs provide a different performance report to the local parliament every year called LKPJ. LKPJ is submitted to local parliament at the end of the budget year. Despite containing various performance information elements that can be retracted from SAKIP, LKPJ is not derived from the same regulations that apply to SAKIP. As acknowledged by one interviewee, *"we provide a different report to the local parliament called LKPJ"* (L19).

LKPJ is a performance report that is regulated by GR No. 3 of 2007. The regulation requires LKPJ to focus on reporting certain aspects of ILGs, such as financial, procedures, and products/output (Hudaya, 2014). As a result, members of a local parliament focus on asking output-related questions such as budget absorption or update on a program's progress. As one interview put it:

"Unlike SAKIP, LKPJ focused on reporting output and not outcome. I think that is why local parliaments often ask about programs and budget money absorption. They never ask an outcome-related question such as why the budget money absorption is high (good output) but there are still complaints out there (bad outcome)" (L2).

6.3.1.2 Internal pressures

Internal pressures refer to factors from within organisations that can lead and motivate a change in the organisation (Upping and Oliver, 2011). Regarding pressures from the internal organisational environment, the interviewees mention attitudes toward change as one element of such pressure that mainly comes from three departments: (1) the planning department; (2) the internal audit department; and (3) the organisation administrative department. The planning department is responsible for translating the ILG's vision and mission into planning documents, such as 5-year plans and annual plan documents. The planning department is also responsible for translating an ILG's general policies into priority programs with sound performance indicators to measure program achievement. While all departments are required to report their activities and actual performance, the organisation administrative department is responsible for the performance report for the ILG. The internal audit department is responsible for auditing the programs carried out by all the ILG's departments and reporting their audit and evaluation result to the head of the ILG. In regards to SAKIP implementation, the organisation administrative department is responsible for preparing a consolidated performance report, and the internal audit department is responsible for evaluating the implementation of SAKIP in all ILG departments. One interviewee explained the pressures that come from the relationship among these departments.

"The performance accountability regime embedded in SAKIP is carried out by three departments, i.e., the planning, internal audit, and organisation administrative departments. The head of ILGs monitors all departments' performance by using the outputs from these three departments." (L3).

Most interviewees admitted the important role of leadership in shaping the ILG's choice to utilise SAKIP. Different leaders may have different attention levels towards SAKIP. ILGs with good scores (A and BB) tend to have leaders who are willing to use SAKIP further by integrating it with other systems within their ILG. Since most ILGs are still run with strict regulations and procedures, it requires some extra initiatives from the head of an ILG to push the bureaucracy to integrate different systems into SAKIP

without having to align the regulations behind those systems. The additional benefit of integrating SAKIP with other systems is a bonus point from the SAKIP scoring system that can change a SAKIP evaluation score from "B" to "BB" or from "BB" to "A" (L1, L2, L3, L11). As this participant indicated:

"Our mayor committed to use SAKIP extensively. He is able to move the bureaucracy machine to use technology despite it not having been regulated. He linked SAKIP with other systems in the form of internet-based applications. He set up a command centre where all applications are connected and integrated" (L2).

The other strong motivation for ILG leaders to use SAKIP is the SAKIP awards ceremony held by the MSAEBR as the culmination of the evaluation process. The awards ceremony is attended by important national figures – sometimes it is attended by the Vice President of Indonesia – and covered by the national media. The seating arrangement during the ceremony is based on the SAKIP score, which means the heads of ILGs with high SAKIP scores will sit the front rows near the main stage, and those with lower scores will sit at the back. During the ceremony, the Minister of State Apparatus will generally praise the heads of ILGs with high SAKIP scores and criticise those with low SAKIP scores. Most ILGs identify the fame and the shame that can be experienced from the Annual SAKIP Awards ceremony as another factor behind the head of an ILG's willingness to strive for achieving a better SAKIP score. Despite there being no financial reward for the award, being seated at the back bench in an event covered by the media is an unpleasant situation that they do not want to experience again in the following year's award ceremony. The following are the expressions of three interviewees regarding the heads of their ILGs' feelings toward the ceremony:

"(…), the Regent will be very upset if we score 'C' again this year."(L19)

"(…) the achievement in performance report gives us confidence that we are on the right track. We were very proud when the Regent received the award. At that time, there were only 11 districts that received such an award."(L11).

"I remember one Regent suddenly left the ceremony after he found out his ILG got "D". He left to avoid being asked by other ILGs' leaders" (L2).

On the other hand, there are also ILGs that tend to maintain their use of SAKIP at a minimum level. These are ILGs with scores of "CC" and below. The heads of these ILGs seem to be satisfied with their current state of SAKIP implementation. As one

interviewee mentioned:

> *"SAKIP is a tool provided by the central government for politically elected officials such as the Regent. It is up to him on how he wants to use it. If he does not want to use it to the next level, I cannot do anything about it. Does he worry about the grade? Yes, he does because he is a public official, and public officials need some degree of acknowledgement. If he wants to be more than what we have achieved, we have to be ready to respond to him"*(L15).

Another reason for the head of the ILG to be satisfied with the organisation's current SAKIP achievement is because the head of the ILG is still focused on other bigger issues, such as corruption. The incongruity between a good SAKIP score and corruption has been an ongoing discussion among Indonesia's government practitioners, because corruption, including major corruption, also happens in institutions with a good SAKIP grade. As one interviewee put it:

> *"(…) he (the head of ILG) always said, it is more important to have a clean government than to have a good SAKIP score but in the following day there is still corruption in my ILG"* (L9).

6.3.1.3 Facilitators of change

Facilitators of change refers to factors that directly influence a successful change or reform. Chapter Three has identified three actors that facilitate the change to process. They are promoters of change, producers of information, and communicators of change. The majority of interviewees acknowledged the role of the MSAEBR and the central government's audit authority (BPKP) as the promoter that fosters them to adopt and implement SAKIP in their ILGs. The MSAEBR and the BPKP shared similar roles regarding the evaluation of SAKIP implementation in ILGs. The only difference is they look after different entities based on the entity's location. The MSAEBR and the BPKP can review the current SAKIP implementation and provide input to improve the ILGs' SAKIP score for the next assessment period. The MSAEBR and the BPKP offered help to ILGs with low SAKIP scores (C or D) by offering the consultation times to identify elements from the SAKIP scoring components that need to be improved. As explained by one interviewee,

> *"The MSAEBR proactively invited us twice to have two meetings with them in order to review our SAKIP and to identify factors that can improve our grades. Now we have had "B" from the last evaluation."* (L19).

Previous research observed that there is always a bureaucratic actor inside a government agency that is responsible for providing performance information to the users, such as central agencies, politicians, or auditors (Christensen, 2002; Upping and Oliver, 2011). In SAKIP's case, this responsibility is exerted by the ILG's senior officials from the organisation administrative department, one of whose roles is to prepare the consolidated performance report. Officials from the organisation administrative department manage and maintain SAKIP implementation by issuing SAKIP guidelines to the ILG's other departments, conducting SAKIP-related training, and rectifying other departments' SAKIP implementation mistakes. As one respondent mentioned:

> *"We conduct training every year to get other departments familiar with the SAKIP guidelines that we issued. There are some technical departments who do not pay attention to our guidelines and directions. As a result they make repetitive mistakes by using incorrect KPIs."* (L18)

Lastly, communication is also an essential part in facilitating change through knowledge transfer. In their research, Upping and Oliver (2012) included training, seminars, publications, technology, and allocated staff resources as elements of communicators for change. In this case, the MSAEBR and the BPKP become the main source of information. They have resources and skilled personnel who are able to provide information to help ILGs to improve their SAKIP implementation. In addition, BPKP has branch offices across Indonesia that make consultation accessible to all ILGs that needed them. Beside SAKIP implementation, BPKP is also responsible for maintaining the implementation of the internal control system in local governments, which makes them always accessible to provide advice for local government.

> *"We invite BPKP to give us training or refreshment training on how to prepare a good performance report."* (L14).

> *"Regarding SAKIP, we assume that each department should know what to do because it has a planning unit inside each department. We can invite BPKP if they want to have some training about SAKIP."* (L15).

> *"We invite assessors from the MSAEBR or BPKP to train us twice a year."* (L11).

6.3.2 The relationship between adopting and utilizing a centralistic management control system in ILGs

In this thesis, the relationship between the adoption and the utilisation of SAKIP in ILGs is represented by the diagnostic and interactive use of SAKIP. The dynamics in the use of SAKIP information by the heads of ILGs can indicate the diagnostic and interactive use of SAKIP by ILG officials. Table 6.7 and Table 6.8 highlight the interview results regarding various sources of information used by top management in their regular coordination meetings and the frequency of the meetings respectively.

Table 6.7: Source information used at the coordination meetings

Major source of Information	Total Responses
Activity report	14
Progress report – budget used and activity done	20
Budget and KPI report	7
Previous meeting agenda	16
Whatsapp group discussion	11
Internal audit	2
Presentation from each division	8
Social media page	7

Table 6.8: Frequency of the coordination meeting

Coordination meeting frequency	Total Responses
Weekly	14
Monthly	4
Quarterly	2

In discussing the diagnostic use of SAKIP, the interviewees highlighted two points that can explain the insignificant statistic relationship between the adoption and diagnostic use of SAKIP: (1) instead of using information from SAKIP, the majority of ILGs use accounting information in their regular coordination meetings; (2) information from SAKIP is highly used diagnostically during the performance report preparation between January and March each year.

6.3.2.1 The intensive use of information from finance and activity reports

The adoption of SAKIP is not followed by a continuous diagnostic use in ILG

managerial meetings. All ILGs have regular meeting routines attended by all heads of department. The meeting is generally held monthly, although some ILGs have it weekly or quarterly. During such meetings, most ILGs discuss: (1) the progress of current year programs and the actual use of budget money; and (2) selected topics at the Governor/Mayor/Regent's discretion. The main source of data is the information provided by the accounting information system. The use of information from the finance or accounting system is preferable because it provides detailed and up-to-date information regarding the actual and budgeted figures for all activities. Generally, the first thing that always attracts the head of the ILG's and other senior executives' attention in a coordination meeting is a significant gap between the actual and budgeted figures (L8 and L10). This phenomenon is common in Indonesia because government agencies have been using information from the accounting department since for a long time since they still applied the line budgeting system. As acknowledged by one interviewee,

> *"Most of the time they used a monthly progress report. The report contains percentage of activities done and percentage of money spent"* (L4).

Other sources of information used by the heads of ILGs for their coordination meetings are complaints from citizens and performance feedback from SAKIP. Complaints from citizens are gathered from several sources, such as open house sessions, direct messages to the heads of ILGs' mobile phones, and Whatsapp and other social media lines that can be used by publics to voice their suggestions. There are only a few ILGs that regularly used SAKIP in their coordination meetings. One general reason for not using SAKIP as the main source of information is because the information is not fully available until the end of the year. Only ILGs that have integrated SAKIP with other systems are able to use performance information in their coordination meetings. As explained by one interviewee,

> *"We use any kind of information available to be discussed in our coordination meeting. We use progress reports, performance information from SAKIP; and citizens' inputs or complaints gathered from open house sessions or from social media"* (L1).

6.3.2.2 Temporary diagnostic use of SAKIP

Another reason behind the lack of diagnostic use of SAKIP information is because the intensity of ILGs' use of information from SAKIP increases only during the preparation and the submission of the ILG's consolidated performance report during the period from January until March each year. According to Permenpan RB53/2014, there are two kinds of performance report that need to be prepared by the ILGs. The first one is the department's performance report. All departments within ILGs are required to prepare their performance report within two months after the end of the budget date. Once it is finished, the reports will be evaluated by the internal audit department using the evaluation format and template provided by the MSAEBR. The second one is the ILG's consolidated performance report. The consolidated performance report is prepared by combining the department's performance report. At the end of the cycle, the consolidated report and the performance evaluation report are submitted to the MSAEBR to be assessed and graded. During this period, the performance information from SAKIP is used intensively in ILG coordination meetings because performance evaluation and performance achievement are two of the five components that will be evaluated by the MSAEBR. Two interviewees said:

> *"After completing the SAKIP assessment, the internal audit department presents their SAKIP recommendation for each department to the Regent in the coordination meetings. The Regent gives directions to all departments regarding findings from the internal audit; and the departments have to respond by presenting the follow-up actions in the following meetings"* (L20).

> *"The MSAEBR uses a different approach when reviewing ILGs. For ILGs with score "A" or "B", they focus on the performance achievement component. If the grade is still "C" or below, the MSAEBR only looks at the completeness of the supporting documents."* (L4).

From the interviews, it was found that ILGs with good SAKIP scores ("A" or "BB") have used SAKIP diagnostically on a regular basis. They use information from SAKIP to regularly evaluate the performance of the heads of departments throughout the year. They also use performance information from SAKIP to evaluate the departments' performance. Using SAKIP along with other sources of information, mentioned in the above sections, these ILG leaders monitor every department's performance and identify problems that can distract ILGs from performing well. Other ILGs' leaders use the information to infuse a sense of competitiveness among heads of departments by

announcing each department's performance achievements in each meeting. As explained by one interviewee:

> *"In our quarterly coordination meeting, the Regent evaluates the performance of all departments and announces three departments with the best performance and three departments with the worst performance. Every three months, all departments are evaluated based on: (1) the budget absorption; (2) the number of audit recommendations that have been followed up; (3) staff attendance; and (4) the KPI achievement."* (L11).

6.3.2.3 The interactive use of SAKIP

Chapter Two has identified interactive control systems as systems used to discuss strategic uncertainties, to learn novel strategic responses to a changing environment and to promote and provoke discussion (Tuomela, 2005). Based on this definition, Bobe (2012, p. 115) identified several main features of interactive control systems, such as "feedback and measurement systems used to elaborate and implement strategy, to facilitate strategic change, to help manage strategic uncertainties, and to serve learning and adaptation".

In discussing the interactive use of SAKIP, the interviewees highlighted an important point that can explain the low statistical explanatory proportion between the adoption and interactive use of SAKIP that was below the minimum threshold.

The majority of ILGs use SAKIP interactively only to find ways to improve their SAKIP score next year. The evaluation result from the MSAEBR is reviewed and broken down to a departmental level. Different ILGs take different approaches in reviewing the results of the MSAEBR assessment. Some of them form a team to discuss the findings from the MSAEBR, to identify and monitor actions taken to follow up the MSAEBR recommendations. The team consists of a group of people coming from different departments, such as planning, internal audit, accounting, and organisation administrative departments. They focus on identifying efforts that need to be taken to increase their score and on encouraging departments to implement those efforts (L1, L2, and L3).

ILGs with good grades have a tendency to include the evaluation results from the MSAEBR and internal audit department in their decision to promote or demote a head of department. In those ILGs, the performance evaluation is conducted on regular basis

– i.e., quarterly or half yearly. If the department with the worst performance does not show any signs of improvement, the head of department is very likely to be replaced (L11). As explained by one respondent,

> *"The Mayor does not want to waste his energy to find out why a department still performs poorly. He just quietly replaces the head of department so that no one will be humiliated."* (L2)

ILGs with the highest grade showed extra initiative in seeking more intensive assistance from the MSAEBR to improve their SAKIP score by encouraging not only the heads of department but also the managers to visit the MSAEBR office in Jakarta to have a one-on-one SAKIP consultation session. As a result, almost all managers in the ILG are fluent in the SAKIP scoring system and fully aware of tips and tricks to improve their scores. As one participant indicated,

> *"After we send managers to the MSAEBR office in Jakarta to learn how to have a proper SAKIP. Now all managers are familiar with difficult issues such as aligning strategic plan to annual plan or cascading KPIs from organisational level to division and sub-division levels."*(L2)

All interviewers agree that all these efforts revolved around the issue of improving their SAKIP grades and not losing face in the awards ceremony attended by all ILGs leaders from all over Indonesia. As one participant explained,

> *"we remember the first time our Mayor went to the ceremony. He sat at the front row only to be asked to move to the back because our score at that time was C. It was so shameful."* (L2)

6.3.3   SAKIP's impact on organisational learning capabilities in ILGs

The final question of this research is how government can learn from performance information provided by its management control system? What kind of feedback mechanism exists in ILGs that can help manager's fine tune or change their business strategy? In order to tackle these questions, the interviews focused on identifying the roles of SAKIP as a tool that can trigger learning in ILGs. An MCS can be identified as one of the many sources of organisational learning (Burr, 2009). It can be used to collect and store significant knowledge from the experience of past success and failures. The essence of organisational learning is the capacity to make change in an organisation. Common (2004) suggested that government agencies should apply their knowledge to change the policy implementation or change departmental activities in

order to perform well. Table 6.9 highlights the interview results regarding ILGs' organisational learning capacity.

Table 6.9: ILGs organisational learning capacity

ILGs' Organisational learning capacity	Total Responses
The availability of a discussion forum	3
The ability to regularly revise SOP	16
The ability to change organisational structure	1
SAKIP is used as the basis for HR policy	5
SAKIP is used to trigger innovation	11

During the interviews, the respondents were asked about the ability of their ILGs to perform several activities that indicate the organisation's learning capacity. These activities were: the availability of a discussion forum where all employees are free to voice their ideas, the organisational ability to look at their current standard operating procedures (SOPs) and review them on a timely basis, the organisational ability to change its organisational structure to meet current challenges, the use of performance information as the basis for HR policy, and the use of performance information to trigger innovation.

This section provides the results of the thematic analysis of the responses collected from questions regarding the impact of SAKIP use on the ILGs' organisational learning capabilities. The patterns (themes) are derived from several examples from the literature explained in Chapter Two.

6.3.3.1 SAKIP as a tool to trigger discussions

One major component of organisational learning is a safe space for employees to be able to throw or challenge ideas to improve the organisation's performance. The majority of ILGs do not have a discussion forum available in its structure where opinions are freely expressed and ideas are unreservedly raised. There is only one ILG that indicated it had a formal discussion forum but it is restricted in the department level.

> *"We have had an SOP that encourages staff to report progress or discuss any program-related issue within their department by using formal and non-formal channels, including by using social media"* (L1).

The other ILGs only describe a dynamic discussion in their regular coordination meetings where participants (i.e., heads of departments) are given opportunities to speak their ideas or opinions regarding the issues being discussed. If one department has difficulty executing a program, other heads of department can offer possible solutions (L2, L13). However, the meetings are generally limited to senior officials only. Therefore, it curbs the possibility of getting ideas for a solution from many sources, including from frontline staff that may have valuable insights (Burr, 2009).

6.3.3.2 SAKIP as a tool to trigger change in the organisational structure

Another indicator of having a working organisational learning capacity is the ability to use past performance to modify the current organisational structure to adapt to the dynamic of environmental changes in order to improve. ILGs are still unable to use their performance information from SAKIP to adjust their structure because the ability to modify structure is still under the authority of the MOHA. The MOHA issued a regulation that rigidly required ILGs to have a particular organisational structure based on the local government pre-defined groups. ILGs across Indonesia have a similar organisational structure because they have to comply with the centralistic organisational structure designed by the MOHA. ILGs have to try to fit the current structure with their current or even ongoing challenges, and any mismatch will result in overlapping roles or wasted resources. The ILGs' inability to freely adjust their organisational structure may affect their motivation to fully implement SAKIP. One interviewee noted:

> "Last year, the MOHA issued a regulation regarding the new organisational structure. However, the new structure cannot fully support us to achieve our strategic goals because it does not match with our strategic issues and purposes. As a result, there are still positions that overlap with each other and are underutilised, but there is nothing we can do about it. We just have to make sure the underutilised position still has KPIs attached to it" (L2)

6.3.3.3 SAKIP as a tool to trigger Standard Operating Procedures' reviews

There are mixed results regarding the use of SAKIP and the ongoing revision of standard operating procedures (SOPs). Most ILGs have already a mechanism to review their SOPs. When a current SOP is considered to be no longer viable with the current demand, a new SOP is drafted, tested, and implemented. ILGs usually identified the need to make a new SOP when the old one is considered no longer effective in producing high-quality outputs. ILGs usually form a team to review the current SOP

before deciding to make a new one (L9). As a result, the use of performance information from SAKIP to revise the current SOP is only an option for ILGs that already have a good SAKIP system in place.

6.3.3.4 SAKIP used as a Human Resource Management (HRM) tool

Another important factor that can trigger effective organisational learning is a close link between organisational achievement and personal reward. Unfortunately, most ILGs still do not have a clear link between performance and HRM policy, such as the decision to promote or demote their employees. While most ILGs still emphasise that informal factors such as closeness to the source of power. For example, the head of an ILG or a political party – are a key factor in personal reward five ILGs have already linked performance information to HRM decisions. These ILGs have linked a department's performance with staff bonuses for the corresponding department, or with the promotion or demotion of the heads of departments. The link between organisational and individual performance has been included in the SAKIP scoring system. The inability of most ILGs to implement it indicated a cultural barrier that may impede the ILGs' learning ability. As explained by one interviewee,

> *"the head of ILG prefer to use the locals to fill up key positions in this ILG because he is also a local. He wants to dignify the locals and to preserve our values".* (L8)

6.3.3.5 SAKIP as a tool to trigger innovation in ILGs

Previous research argued that innovation in the public sector is limited to improving a program's input and output ratio, instead of improving the program's outcome (Burr, 2009). Similar to Burr's argument, most ILGs focus their innovation on input and output efficiency. All ILGs do not have a research mechanism to innovate in place. Most ILG innovation is due to the awards provided by the MSAEBR for an annual ILGs innovation competition and a bonus point in the SAKIP scoring system.

6.3.4   The role of isomorphism in ILG behaviour toward SAKIP

It can be seen that SAKIP is used diagnostically and interactively in ILGs. However, the utilisation of SAKIP is limited during the preparation of performance reports to be submitted to the MSAEBR for a very specific purpose, for example to have a better

SAKIP score, to avoid shame at the SAKIP Awards ceremony and, hopefully, to achieve fame by getting the SAKIP Award.

The role of isomorphism is clearly demonstrated in SAKIP implementation in ILGs because almost all ILGs show great similarity in their behaviour toward SAKIP utilisation. Coercive isomorphism is displayed when ILGs conform to a series of SAKIP-related regulations despite there being some confusion or contradiction among regulations. Normative isomorphism is displayed by the continuous consultations between ILGs and the MSAEBR or BPKP. Some ILGs regularly invite the MSAEBR to conduct a workshop on SAKIP implementation and to receive some tips to get a better SAKIP score. Mimetic isomorphism is displayed by ILGs through comparing with and copying from ILGs that have better SAKIP scores.

The utilisation of SAKIP does not influence the ILGs learning capabilities. ILGs cannot use the performance feedback from SAKIP to observe their surroundings and respond properly by making a timely change in their organisational structure because they are still significantly controlled by the MOHA. ILGs are still unable to link organisational performance to individual performance because political and cultural aspects are still important factors in HRM policy. More advanced ILGs only apply performance-based promotion and demotion decisions to managers and supervisors, but not to all employees. As a result, this limits the learning culture in the organisation.

Based on the interviews, SAKIP's components are not utilised by ILGs as a tool to anticipate future circumstances. SAKIP's features intended to anticipate future threats and opportunities, such as strategic planning and performance evaluation, cannot be used interactively because some essential organisational aspects of ILGs are circumscribed by external parties, such as the MSAEBR, MOHA, and local parliament. ILGs are unable to change their 5-year strategic plan without having to go through a long political process between ILGs and the local parliaments. Interviewees indicated their reluctance to change their strategic plans because they do not want to spend too much energy going through the process. Some ILGs prefer to keep their old strategic plan and simply include elements from the new plan in the programs in an annual plan. As a result, they do not receive a good SAKIP score because the strategic plan is not aligned with the annual plan. With this problem occurring from time to time, the MSAEBR, instead of taking the initiative to talk to the MOHA to solve the problem,

decided to accommodate the partial changes in the annual plan and advised ILGs to continue such practice as long as they include new KPIs in the existing strategic plan that link to the new program in the annual plan. The reward for tweaking the KPIs is some extra points in the SAKIP score. Such a solution gives a strong message to ILGs that it is more important to align the performance indicators between strategic planning and annual planning to avoid penalties during performance measurement and evaluation. ILG bureaucrats dance around the conflicting regulations and cultural barriers in order to get along with all parties and avoid any problems. However, they do so by sacrificing the full potential of SAKIP as a tool to anticipate future opportunities and to identify potential risks to their organisations.

Learning from past experience, most ILGs strategically reduce the meaning of SAKIP from a system that can provide information that will assist managers in planning, decision making, and evaluation into a system that focuses on: (1) the alignment of the strategic plan document to the annual plan document, (2) the accuracy in cascading the strategic plan's KPIs to individual KPIs, and (3) providing supporting documents prior to MSAEBR evaluation in order to have a good SAKIP score.

It can be seen that ILGs strategically limit their learning capabilities by only using SAKIP to the degree that it will only improve their SAKIP score. The existing coercive, normative and mimetic isomorphisms have created a prison for ILGs regarding how to fully use SAKIP. SAKIP is narrowly defined as a system that aligns planning and performance evaluation documents. As a result, ILGs fail to identify and provide necessary organisational infrastructures to follow up performance feedback from SAKIP. The overall ILGs bureaucratic environment do not have a structure or formal process that rewards ILGs for analysing and anticipating future trends and establishing a free and safe space to express their ideas without fear of being punished or humiliated.

The availability of a unit that uses key information from SAKIP to identify new possibilities in providing better services to citizens or to recognise potential risks would bring SAKIP utilisation to the next level: from the performance planning and measurement level to the performance improvement level. The availability of a safe space for ILG employees to express their thoughts would create a learning culture in the organisation. The ILGs' ability to modify their structure would bring agility and dynamism for ILGs in responding to new issues, thus providing better services to

citizen. Finally, the ILGs ability to link individual with organisational performance would bring clarity for employees in doing their job and provide clear incentives that would improve competitiveness in ILGs.

6.4   Summary

SAKIP as the management control system in ILGs is the tool for ILGs to continuously improve their services to their citizens by providing performance feedback to the ILG management. The SAKIP guidelines emphasise the ongoing plan, do, check and act (P-D-C-A) cycle to ensure ILGs accomplish their mission and achieve the vision stated in their strategic plan.

During SAKIP's implementation, ILGs recognise that they have to observe various SAKIP-related regulations issued by the MSAEBR in order to achieve a good grade and avoid shame during the Annual SAKIP Awards ceremony. On the other hand, SAKIP-related regulations do not always comply with other regulations issued by the MOHA and the MOF. Having to obey various regulations applied upon them, the ILGs have to manoeuvre through the regulations by identifying and delivering the minimum requirements for each regulation at first and fulfil the rest of the requirements over the time.

This situation has impeded ILGs' capability to anticipate future opportunities or problems; and to creatively look for solutions. Further, it has encouraged ILGs to be more reactive than anticipative in making decisions. The opportunity to be creative in responding to performance feedback from SAKIP is hampered by the inability to change their organisational structure due to strong control by the MOHA or by the inability to effectively change their strategic plan due to a long political process with the local parliament. ILGs become organisations with a strong tendency not to change their planning documents. If there is any deviation from the plan or any new problems arising along the way, these will be dealt with accordingly without having to change the existing plan or organisational structure. The ILGs inability to effectively change their structure or systems has hindered their capacity to learn because they cannot use their knowledge to change their organisations accordingly.

When ILGs are required to be innovative in providing services to citizens, they focus on innovation that only affects input and output in order to keep the current system intact.

Previous research has mentioned that government agencies tend to focus on input and output for their innovation, and not on their outcome. This finding may provide a certain degree of explanation regarding innovation in public organisations.

From the interviews, it emerged that all respondents do not have formal mechanisms to anticipate the future. ILGs tend to be reactive by only facing the problems at hand. ILGs do not use the features in SAKIP for learning purposes due to (1) being highly dependent on an ILGs leader's willingness to use SAKIP to a certain extent, (2) there being no formal structure in place to encourage ILG staff to freely propose an idea, and (3) ILGs not having flexibility to modify their structure. ILGs' organisational structure is designed and regulated by the MOHA.

Chapter 7: **Discussion and Conclusion**

7.1　Introduction

This thesis has examined the adoption and implementation of a centralistic management control system in ILGs. A theoretical model of the adoption of SAKIP in ILGs and the relationship between the use of SAKIP and ILGs' organisational learning capabilities was developed and tested empirically within an institutional theory framework. This final chapter draws a summary of previous chapters, highlights the key findings, provides theoretical and practical implications, recommends questions for future research, and finally offers closing remarks. A summary of the research objectives is presented in Section 7.2. Section 7.3 provides a summary of the results and key findings of the study. Section 7.4 details the contributions of this research. Section 7.5 highlights managerial and policy implications of this thesis. Section 7.6 discusses the limitations of this thesis and proposes future research directions, and finally, the remarks in Section 7.7 complete this thesis.

7.2　Summary of the Research Objectives

There is an increasing demand for greater accountability and transparency in the public sector. The demand for more accountability has motivated a widespread interest in measuring the financial and non-financial performance of government agencies to explain the way policy and programs are developed and managed. On the other hand, the demand for greater accountability may bring an undesirable consequence to organisational learning capabilities. The fear of being punished and humiliated can trigger defensive reporting and gaming behaviour on the part of the managers subject to performance monitoring.

The demand for greater accountability has also led the Indonesian government to develop a centralistic management control system, known as SAKIP. This system integrates performance measurement into the management process and discloses the performance information of Indonesian government agencies to the public. This research focused on a model that examined the motivations for the adoption and implementation of SAKIP in ILGs, along with investigating the relationship between the diagnostic and interactive use of SAKIP and organisational learning. The aim was to

establish a framework for adopting and implementing a MCS in the public sector to facilitate effective practices. Four research questions were examined by empirically testing 9 hypotheses using data from a questionnaire survey and semi-structured interviews. These four research questions were:

1. What are the factors that influence the adoption of SAKIP in local governments in Indonesia?
2. Does the adoption of SAKIP influence the diagnostic and/or interactive use of SAKIP in local governments in Indonesia?
3. Does the diagnostic and/or interactive use of SAKIP affect local governments' organisational learning capabilities?
4. Do the isomorphism mechanisms of institutional theory aid in explaining the utilisation of a centralistic MCS as local governments' attempt to comply with the associated regulations?

The research questions were addressed in three phases. The first phase focused on providing a critical review of the literature and the development of the model that underpinned this research. The concept of accountability in the public sector and the adoption and use of SAKIP as a centralistic MCS in ILGs was emphasised. This phase allowed the development of a theoretical model of the adoption of SAKIP in ILGs and provided support for examining the relationship between the use of SAKIP and the organisational learning capabilities of ILGs.

The second phase involved a mailed questionnaire survey to a population of 530 ILGs. Following a pilot study of the survey instrument, the final useable response rate for the main study was 165 ILG responses or 31%. Quantitative data collected from the survey allowed the model to be tested using various multivariate statistics. Structural equation modelling (PLS-SEM) was the primary statistic used to test the model relationships and the significance of the path coefficients from each hypothesised relationship detailed in Chapter Three. Chapter Four outlines the rationale for this statistic while Chapter Five presents the results and analyses of the survey data.

The third and final phase provided qualitative information obtained through semi-structured interviews with 20 ILG officials. These qualitative interviews with willing and experienced participants from phase two of the research facilitated a more in-depth investigation of opinions and explanations of beliefs and behaviours relevant to the research objectives. Findings were able to highlight patterns and themes that added valuable supplementary explanations and support for the significant relationships found

in phase two of the research.

7.3   Summary of the Results and Key Findings of the Study

The results of the phase two survey and subsequent statistical analysis (PLS-SEM) found support for 7 out of the 9 hypotheses tested. Table 7.1 presents a summary of the statistically significant factors that influence ILGs' decision to adopt and use SAKIP, and their impact on ILGs organisational learning capabilities. The results of the survey were also explored through interviews with 20 ILGs managers to further understand the impact of institutional isomorphic pressures, namely; coercive, mimetic, and normative, in the adoption and use of SAKIP; and how SAKIP influences ILGs learning capabilities. The following sections 7.3.1 to 7.3.4 outline the key findings for each of the four research questions.

Table 7.1: Results of Hypothesis Testing (H1-H6)

Description		Result of PLS-SEM analysis				
		Expected sign	Influence	t-stats	Path	Significance
RQ1: What are the factors that influence the adoption of SAKIP in local governments in Indonesia?						
H1	External Pressures	+ve	Weak	1.82	0.211	p<0.1*
H2	Internal Pressures	+ve	Strong	1.97	0.193	p<0.05**
H3	Facilitators of changes	+ve	Strong	2.17	0.216	p<0.05**
H4	Barriers to changes	-ve	No Influence	1.00	0.086	
RQ2: Does the adoption of SAKIP influence the diagnostic and/or interactive use of SAKIP in local governments in Indonesia?						
H5a	Adoption → the diagnostic use of SAKIP	+ve	No Influence	0.74	0.081	
H5b	Adoption → the interactive use of SAKIP	+ve	Very Strong	3.40	0.290	p<0.01***
RQ3: Does the diagnostic and/or interactive use of SAKIP affect local governments' organisational learning capabilities?						
H6a	Diagnostic use →organisational learning	+ve	Weak	1.69	0.140	p<0.1*
H6b	Interactive use →organisational learning	+ve	Very Strong	4.25	0.625	p<0.01***
H6c	Interactive use →diagnostic use	+ve	Very Strong	9.83	0.341	p<0.01***

*Significance path: t-stats >=2.58/***p<0.01; t-stats >=1.96/**p<0.05; t-stats >=1.65/ *p<0.1 (two-tailed). Statistical results were computed using bootstrapping method with 5,000 resampling.*

7.3.1 Research question one: SAKIP adoption factors

As outlined in Chapter Three the model used by Upping and Oliver (2011) was adapted for the present study to examine the factors that influence the adoption of SAKIP in ILG. The factors included in the research model are: (1) external pressures, (2) internal pressures, (3) facilitators of change to better understand the likelihood and the purpose of change, and (4) barriers to change. Three out of the four factors were found to influence the adoption of SAKIP in ILG as illustrated in Table 7.1. The results for each of the factors are now reviewed.

Hypothesis 1 (H1): *There is a positive relationship between external pressures and the adoption of SAKIP.*

The external pressure variable was used to measure external organisational factors that can shape the process of change. The elements of external pressures variable included for example regulatory bodies and central government agencies that could apply coercive pressures to ILGs. Survey analysis found that the MSAEBR, was able to impose rules, monitor compliance, provide recognition, and set up cultural expectations to compel ILGs to adopt SAKIP. Coercive pressures that came from regulations issued by the President, MSAEBR and other central government agencies were found to be the main external factors that influenced ILGs' decision to adopt SAKIP. Results also show that the impetus for the original regulations, the financial crisis in 1998, through the passage of time is now of lesser importance. This is supported by the descriptive results shown in Table 5.5 in Chapter Five that presents the ranked mean scores of survey responses by ILG officials for the different sources of external pressures that influenced the adoption of SAKIP.

Results of PLS-SEM analysis shown in Table 7.1 found a weak significance of external pressures (t-stat=1.82, p<0.1) to adoption of SAKIP. Findings suggest central government agencies continue to exert external coercive pressure on ILGs. Despite the autonomy in managing their local affairs, ILGs are still not free from the cross-departmental regulatory framework imposed by several central government agencies. For example, the MSAEBR continues to issue regulations or guidelines regarding SAKIP and closely monitors adoption of SAKIP principles and ongoing implementation

and review, and provides awards to recognise agencies that satisfactorily apply SAKIP principles.

The MSAEBR's ability to compel ILGs to adopt SAKIP principles was not supported by the provision of clear and consistent regulations or guidelines to integrate SAKIP with other management control systems, such as planning, budgeting, treasury, and government accounting systems. After several attempts to integrate SAKIP with other control systems, the central government finally issued the Presidential regulation that comprehensively explained SAKIP for the first time after 15 years of its adoption, implementation, and review.

The time lag from the introduction of SAKIP to the provision of clear guidelines created confusion and may in part explain the weak significance (p<0.1) of external pressures with the adoption of SAKIP. The lack of guidance led ILGs to look to the MSAEBR for advice on SAKIP implementation, changing the perception of the MSAEBR of being a regulator to more of a facilitator of change. This shifts the MSAEBR's role as more of a facilitator of change that employs normative pressures to encourage ILGs to adopt and use SAKIP as opposed to coercive pressure.

The finding indicates that coercive pressure was strongly enforced in the early adoption of SAKIP when the central government exerted political influences to offset the pre-existing organisational cultures and beliefs prior to the reform. Normative pressures emerged over time when the new value systems evolved up to the time of the SAKIP adoption. Despite the weak relationship, the survey results are still found to be consistent with previous research that examined coercive isomorphism in the Indonesian public sector, where powerful external parties were able to affect the organisation's decision to adopt and implement a new system (Akbar et al., 2012; Akbar et al., 2015; Djamhuri, Khalid, and Zainuddin, 2012; Manafe and Akbar, 2014; Primarisanti and Akbar, 2015).

The ability of central government agencies to impose coercive pressures on ILGs was confirmed and elaborated in the qualitative phase of this research. All interviewees recognised the role of central agencies and their regulatory framework in shaping the process of SAKIP's adoption and implementation. The MSAEBR has the ability to issue a ministerial level regulation that can be used to direct ILGs. Further, the

MSAEBR could issue a warning note to ILGs that fail to comply with the regulation and bring unwanted negative attention and embarrassment to ILGs.

For example, as one interview stated:

> *"(…) the reason why we adopt SAKIP is because of the presidential regulation and the MSAEBR regulation that require us to do so. We do not want to receive any warning or be in a difficult situation if we do not apply it"* (L4).

Another important finding is the non-existence of financial penalty or punishment for failing to comply with SAKIP requirements. For example, Akbar (2012) argued that one of several coercive pressures that drove ILGs to submit a performance report derived from SAKIP was the central government's ability to stop the distribution of funding. He argued that ILGs that failed to submit a performance report might not receive their centrally allocated funds that could amount to 60% of an ILG's total budget. Contrary to Akbar's finding, all 20 participants interviewed in this study reported that there was no financial penalty given to ILGs if they failed to comply with SAKIP requirements. The finding reflects the adequacy of the central government's influence over ILGs through regulations alone. As part of the state finance system, most ILGs are dependent on the central government's funding allocation. Despite there has not been any penalty implemented, the intensity of the assessment process and the rhetoric used during and after the SAKIP award ceremony have developed the sense of insecurity resulting from being humiliated for non-complying ILG.

Another external pressures factor that may have driven ILGs to conform to SAKIP is to avoid the perception of corruption by the general public. Perception of the general public was ranked 5th (mean=4.12) on the list of external pressures that may influence the adoption of SAKIP. There are two terms that always appear in all SAKIP regulations: accountability and performance. Further, the annual SAKIP Award was also called the "Accountability Award". Failing to observe SAKIP requirements and submit a performance report may be perceived by the central government and public as an indication of possible corruption and thereby negatively affect the reputation of the non-complying ILG.

Therefore with this in mind, SAKIP adoption and compliance by ILGs are accommodating coercive pressures with the reward being legitimacy and stability. By

implementing SAKIP, ILGs maintain a positive impression of NPM reform and serves to minimize any potential conflict with powerful government officials or public figures that can impact or interrupt their day-to-day activities.

Hypothesis 2 (H2): *There is a positive relationship between internal pressures and the adoption of SAKIP.*

The variable internal pressures were used to measure organisational factors that can lead to and motivate a change from within the organisation. The elements of internal pressures were the internal organisational environment or internal users of information. Table 5.6, Chapter Five presents the results of the descriptive statistical analysis for the internal pressures that influenced the adoption of SAKIP from the perspective of ILG officials.

The descriptive statistical analysis found that the internal pressures to adopt SAKIP mainly came from the top management[18] (i.e. the Governor, Mayor, or Regent). The results reported in Table 7.1 reveal that internal pressures have a significant and positive relationship (t value, 1.97, p<0.05) with the adoption of SAKIP. Further, the results of the PLS-SEM analysis shown in Table 5.14 in Chapter Five support this finding by indicating that the ILG's decision to adopt SAKIP is motivated by the ILG leaders demand to upgrade the monitoring system (indicator loading = 0.74). ILGs also respond to the internal pressures that require them to have a tighter control over their expenditure (indicator loading = 0.78) and provide better information in the budget preparation process (indicator loading = 0.74). On the other hand, the need to use SAKIP in the day-to-day decision-making process was not considered as the main driver for ILGs to adopt SAKIP.

The lack of a clear and consistent definition about SAKIP has affected its' use in ILG operations. The study found in interviews that the leaders' perception toward the importance of SAKIP influences the degree of SAKIP utilisation in ILGs. There are few leaders of ILGs who aspire to use SAKIP to its full extent. Further, most interviewees exposed that ILG managers choose to implement SAKIP at a minimum level when their leaders show little interest in fully utilizing SAKIP. By making the most of the SAKIP

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[18] The role of ILGs' leaders and top management in defining the adoption and use of SAKIP were further elaborated in the qualitative phase of this study.

scoring structure, ILGs can reach an acceptable score (CC) and avoid criticisms from the MSAEBR with minimum effort.

Interviewees disclosed that the other internal factors that impacted the adoption of SAKIP were the planning, internal audit, and organisation administrative departments. These departments work together to ensure the implementation of SAKIP in all ILG departments. The planning department's role is to link the strategic plan performance indicators to the annual plan performance indicators. The internal audit department is responsible for conducting regular assessments on how well each department implemented SAKIP. The organisation administrative department is responsible for preparing the ILG's consolidated performance report. Interviews indicated that good collaboration among these departments leads to better utilisation of SAKIP and results in a good SAKIP assessment grade.

Interviews also highlighted that the shame-and-fame policy was an important factor. Participants suggested that the main motivation behind ILGs' active participation in adopting and implementing SAKIP was to have a good assessment score from the MSAEBR. A good score means ILG leaders can secure front seats at the centre of attention during the SAKIP Award ceremony. While having the best score places the ILG leader in the spotlight. The SAKIP Award ceremony is an important ceremony attended by influential government officials and covered by the national media. Consistent with the findings from the external pressure variable, the SAKIP Award recipients enjoy the stability that comes from being perceived as an accountable entity. They manage public legitimacy, preserve a good image of the ILG's leader, and protect the ILG's image from the prejudice of lack of accountability and corruption. On the other hand, having a bad score may affect an ILG's stability and put the leader in an unfavourable position of being a low achiever and warranting greater scrutiny.

Hypothesis (H3): *There is a positive relationship between facilitators of change and the adoption of SAKIP.*

The variable facilitators-of-change was used to identify factors that actively foster the implementation of SAKIP in ILGs and stimulators of reform or change. Table 5.7 in Chapter Five presents the descriptive results for the items that measured the facilitators of the adoption of SAKIP.

Facilitators of change that influenced successful SAKIP adoption in ILGs were found in the survey to be mostly related to the; (1) leader's commitment, (2) knowledge of data requirement, (3) adequacy of resources committed to adopt SAKIP, and (4) a full understanding of how to collect data. The use of external consultants and the clarity of SAKIP's role in each individual ILG's financial management system were considered to be less influential in the success of SAKIP implementation. This finding indicates that there appears to have been a shift in the normative pressures to adopt SAKIP from external consultants to the MSAEBR that actively provides SAKIP assistance to ILGs.

Results reported in Table 7.1 suggest that facilitators of change have a significant (t value, 2.17, $p<0.05$) and positive relationship with the adoption of SAKIP in ILGs. The SEM-PLS result (see table 5.14 Chapter Five) empirically suggests that: (1) the clarity of SAKIP's role in the local government's financial management system (indicator loading=0.80) and (2) the necessary culture and mindset within the ILG to support change (indicator loading=0.79) are two main factors that facilitate and bring direct influence on a successful change or reform. This is supported by qualitative interview findings. Interview participants acknowledged the role of the MSAEBR and BPKP[19] in aiding the process of SAKIP adoption and implementation. These two organisations actively shared their SAKIP knowledge and expertise with ILGs providing SAKIP training and seminars. With their resources and professional skills, the MSAEBR and BPKP are able to impose effective normative pressures on ILGs to implement SAKIP. This finding also explained the non-significant differences in adoption factors between ILGs located in the island of Java and out of Java. Over time, the active role of the MSAEBR and BPKP has reduced the knowledge gap among ILGs that was identified in previous research (Akbar, 2012).

Hypothesis (H4):   *There is a negative relationship between barriers to change and the adoption of SAKIP.*

Survey results showed that barriers to change did not have a significant relationship with the adoption of SAKIP. A possible explanation for this non-significant relationship is that the role of the MSAEBR as the regulatory body and the main facilitator for SAKIP in ILGs outweighs the features of the ILGs that hindered or prevented the

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[19] BPKP is the government auditor that can provide consulting work and training for all government agencies, including local governments.

adoption of SAKIP. Several issues that may have been barriers in the past such as the opaqueness of SAKIP's role in the ILG's financial management system and the high cost of implementing SAKIP are no longer considered as the barriers because ILGs have a better access to get assistance from the MSAEBR and BPKP.

Previous research has stressed the importance of having a comprehensive approach to improve bureaucratic reform in the Indonesian government. This includes regulation harmonization (Kasim, 2013), and improved integration between planning and budgeting system in SAKIP implementation (Jurnali and Nabiha, 2015). The findings of the current study add to the literature by recognizing the cost of having an unclear and inconsistent external pressure on management commitment and ILGs perception toward SAKIP.

Findings in the ILG in this study suggest that due to the prolonged gap in the regulation and the guidelines for SAKIP implementation, the original purpose of SAKIP to focus on disclosing and monitoring strategic performance achievement in order to achieve efficiency, effectiveness, transparency and accountability within the Indonesian public sector, has been distorted. After 16 years of implementation, SAKIP has evolved to mean the preparation of a performance report and achieve a sufficient score to minimise embarrassment or scrutiny of the ILGs leaders at the SAKIP award ceremony rather than as a tool to improve operations.

The evolved interpretation has also affected the MSAEBR approach in providing advice, training and seminars to adopt and implement SAKIP. The MSAEBR approach is driven by the need to improve the SAKIP score of ILGs. By 2019, the MSAEBR has targeted that 50% of districts and cities should have the minimum score of "B". In 2017, there are only 9% of districts and cities that meet with the qualification. However, the number of districts and cities that reach "B" has doubled since 2014 (Jajeli, 2017).

Table 7.2 provides the performance of provinces, districts and cities in 2012, 2014 and 2015. The progress of district and city that have improved their SAKIP implementation to reach the minimum score "B" and above is still below 10%.

Table 7.2: Province/District/City Performance 2012, 2014 and 2015

Grade	Predicate	Province						District/City					
		2012	%	2014	%	2015	%	2012	%	2014	%	2015	%
AA	Excellent							0		0		0	
A	Great	0				2	5.9%	0		0	0.0%	1	0.2%
BB	Very Good	0	0.0%	5	14.7%	7	20.6%	0	0.0%	2	0.4%	7	1.4%
B	Good	6	17.6%	11	32.4%	8	23.5%	2	0.4%	19	3.8%	29	5.8%
CC	Fair	19	55.9%	13	38.2%	13	38.2%	104	20.6%	156	31.0%	168	33.3%
C	Bad	8	23.5%	4	11.8%	3	8.8%	256	50.8%	233	46.2%	231	45.8%
D	Very Bad	0	0.0%	1	2.9%	1	2.9%	76	15.1%	94	18.7%	68	13.5%
TOTAL		33		34		34		438		504		504	

On the other hand, Table 7.2 above shows that 59.3% of the District / City grouping of ILGs SAKIP scores in the bad / very bad category (i.e. D and C category) indicating the improvement in accountability and transparency is only marginal. Also, Table 7.3 below shows that the change in ILGs with level CC (i.e. fair) scores has slowed over the past 12 months.

Table 7.3: Province / District /City (CC grade and above)

	2009	2010	2011	2012	2014	2015
Province	3.7%	31.0%	63.3%	75.8%	85.3%	88.2%
District / City	1.2%	4.3%	12.2%	24.2%	35.1%	40.7%

The MSAEBR tries to meet the 2019 target by conducting a workshop on SAKIP implementation and providing some tips to get a better SAKIP score. Therefore, the number of ILGs with better scores is expected to increase in the coming years as the MSAEBR will intensify guiding ILGs to achieve a better score.

7.3.2 Research question two: diagnostic and interactive controls

The adoption of SAKIP variable was used to measure the managers' ability to utilise SAKIP to access essential knowledge from the organisation to monitor the ILG's programs and activities. Factors in SAKIP adoption can refer to the diagnostic and interactive use of SAKIP by ILG officials. The pressures surrounding the adoption of SAKIP can encourage the diagnostic and interactive use of SAKIP to provide an adequate and satisfactory basis for planning, decision-making, and evaluation.

The elements of the adoption of SAKIP variable included the use of SAKIP to measure

ILG programs[20] and manage their results. Table 5.9 from Chapter Five presents the result of the descriptive statistical analysis for the adoption of SAKIP from the perspective of ILG officials.

Descriptive results found that ILGs view the outcome[21] indicators (mean score 4.48) as more important than the output indicators (mean score 3.92). Despite considering themselves to have a mechanism[22] in place to review the validity of performance indicators used in SAKIP (mean score 4.39), ILGs still find it difficult to have performance indicators that meet a set of criteria for good performance indicators such as relevance, timeliness, reliability, and validity (mean score 2.80). These findings indicate the difficulty for ILGs to have indicators that accurately measure the impact of their programs. It also revealed that local parliament does not use SAKIP as their only source of information in reviewing ILG performance. This finding is also consistent with the external pressures finding discussed under the research question one.

PLS-SEM results indicates that the adoption of SAKIP does not appear to have a significant impact on the use of SAKIP as a diagnostic control system[23] in ILGs. On the other hand, the PLS-SEM results showed that the path from the adoption of SAKIP to the interactive use of SAKIP is significant (t-value = 3.40, $p<0.01$) and consistent with the expected direction (positive). The result suggests that the adoption of SAKIP has a significant impact on the use of SAKIP as an interactive control[24] system in ILGs. However, the low R^2 values for the interactive use variables ($R^2=0.08$) does not allow the model to provide a convincing explanation for any variance in the interactive use of SAKIP.

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[20] Under the decentralization program, most of government functions are devolved to ILGs including social affairs, education, health, public work, housing, agriculture and forestry.

[21] MSABR guidelines describes: (1) output as good or services as the direct result of a program; (2) outcome as the benefit of a program.

[22] The validity of performance indicators is reviewed by the ILG's internal audit department and the MSABR.

[23] Diagnostic control system is referred to "the formal information systems that managers use to measure the outputs of a process, compare predetermined standards against actual results, and correct deviations from pre-set standards of performance" (Simons et al., 2000, p. 209). This involves regular monitoring on budget and performance indicators.

[24] Interactive control system, on the other hand, is the formal information systems used by managers to review strategic uncertainties and responses; and to regularly involve subordinates with decisions (Simons et al., 2000; Tuomela, 2005). Interactive control involves using several key information from an MCS to track new program and acquire strategic feedbacks by reviewing the information with key people. Naranjo-Gil (2016, p. 868) emphasised that the difference between the two systems is "not in their technical design features, but in the way managers use both systems".

Based on the adoption of SAKIP outer weight analysis, the non-significant relationship between the adoption and diagnostic use of SAKIP; and the non-convincing explanation between the adoption and interactive use of SAKIP, despite its significant relationship: are mainly due to the ILGs' inability to fully implement a set of criteria for good performance indicators (outer weight=0.435) and the use of current year output to determine the next year appropriation has the lowest outer weight (0.368). At the same time, outcome indicator is not considered as the crucial elements for the next year's appropriation. The adoption of SAKIP instruments such as long-term development plan, strategic planning, annual planning and performance indicators are not followed by a formal procedure to provide dependable data available to be used. Performance indicators were determined merely by using trend from last year and not by reliable baseline data. The findings also reveal that the coercive pressures from SAKIP regulations and normative pressures from the MSAEBR and BPKP have enabled ILGs to adopt SAKIP and produce the performance report. This indicates that most ILGs are no longer having a technical issue in implementing SAKIP.

In prior research, ILGs were identified to have lack of knowledge in implementing SAKIP and producing the performance report (Jurnali and Nabiha, 2015). On the other hand, ILGs are still having difficulties to implement it with other management control system. The indication that SAKIP is decoupled from ILGs actual activities is not found because there is a mechanism in place to review the validity of performance indicators used in SAKIP and that the Indonesian Parliament uses outcome indicators to review ILGs' achievement. These statistical findings are supported by the interview results and they will be explained in the next sections.

Hypothesis 5a (H5a): *There is a positive relationship between the adoption of SAKIP and its use in a diagnostic control system.*

The diagnostic use variable was used to measure the utilisation of SAKIP for regular monitoring purposes and communicating notable variances in the ILG's critical success factors[25]. The diagnostic use of SAKIP was also referred to as a single-loop of learning because ILG managers only modify their activities without having to make a fundamental change. They use information from SAKIP to identify problems at an

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[25] Critical success factor represents areas or issues essential to organization's current activities and future success (Somers and Nelson, 2001).

operating level and find solutions that allow ILGs to continue operating in a stable state. Table 5.10 in Chapter Five presents the results of the descriptive statistical analysis for the diagnostic use of SAKIP from the perspective of ILG officials.

As in the case of diagnostic utilisation, the survey indicated that ILGs only moderately use SAKIP (mean=3.66). ILGs diagnostically use SAKIP for mainly reviewing current key performance indicators, reviewing the strategic plan and program priorities, monitoring results, and tracking progress toward goals. On the other hand, the use of SAKIP as a basis for implementing reward and punishment mechanisms is viewed as the least important use in ILGs. Overall, this finding was in-line with previous research regarding the use of performance measurement systems and reporting in ILGs. For example, Akbar (2012) that found performance indicators were used mainly for setting ILG strategy and only used marginally for providing individual reward.

The results reported in Table 7.1 suggests that the adoption of SAKIP does not have a statistically significant relationship with the diagnostic use of SAKIP. Several factors that explain the non-significant relationship between the adoption and the diagnostic use of SAKIP were found in interviews with ILG officials. For example, participants indicated that ILGs are inclined to diagnostically use SAKIP only during the preparation and the submission of the ILG's consolidated performance report during the period from January until March each year. During this period, performance information from SAKIP is used in ILGs' coordination meetings to prepare all the required documents to be submitted to the MSAEBR. For example, an ILG's leader discussed the achievement of certain KPIs from all departments to ensure the availability of both accounting and performance information in the ILG's performance report. An ILG is also required to conduct an internal assessment of SAKIP implementation in each department. The internal audit department conducts the assessment and submits the result to the MSAEBR along with the performance report. All departments in an ILG should respond to the assessment result in the coordination meeting.

ILGs often diagnostically use information from the finance and accounting information system in their regular meetings. Interviewees disclosed that most ILGs had regular coordination meetings attended by heads of department. The meetings can be held weekly, monthly, or quarterly. During the coordination meeting, the progress of the

current year's programs and the use of budgeted funds always becomes one of the main topics to be discussed. This finding is consistent with quantitative results that showed the role of SAKIP in collecting, storing and distributing information. However, SAKIP was not the main source of information for the discussions during these regular meetings. The main source of information used in the discussions is the detailed and up-to-date information regarding current progress and amount of money spent for all activities. The other source of information used in the regular meetings is citizens' complaints.

There were only limited numbers of ILGs that diagnostically use SAKIP on a regular basis. These were ILGs with a good SAKIP implementation assessment score. For example, the leaders of these ILGs use performance information from SAKIP and accounting information from the finance and accounting system to monitor the achievement of their campaign promises and other program priorities. They use information from SAKIP to monitor all departments' achievements, evaluate the heads of departments' performance, and to link the reward and punishment policy to the managers' performance.

Hypothesis 5b (H5b): *There is a positive relationship between the adoption of SAKIP and its use in an interactive control system.*

The interactive use variable was used to measure the utilisation of SAKIP for identifying obsolete strategy and promoting discussions. Top managers usually examine selected measures in order to learn the strategic meaning and consequences of the measures (Tuomela, 2005). Simons (1994) argued that an interactive control system is used to develop opportunity-seeking and learning as a response to a changing environment.

The interactive use of SAKIP is considered to be equivalent to double-loop learning because such a system is used to develop new paradigms by questioning fundamental policies and assumptions (Kloot, 1995). The interactive use variables focused on identifying the use of SAKIP in order to improve the quality of strategic management and to increase commitment to strategic targets. Table 5.11 in Chapter Five presents the results of the descriptive analysis for the interactive use of SAKIP from the perspective of ILG officials.

As in the case of interactive utilisation, the survey indicated that ILGs only moderately use SAKIP (mean=3.47). ILGs' top management mainly interprets information from SAKIP and discusses performance achievement reported on SAKIP with their operating managers on a regular basis. The survey also revealed that ILGs' top managers pay daily attention to the information in SAKIP system. The evidence reported in Table 7.1 suggests that the adoption of SAKIP had a significant and strong relationship with the interactive use of SAKIP in ILGs. On the other hand, the adoption of SAKIP only explained 8.4% of the variance in the interactive use of SAKIP, which is below the 10% minimum threshold. The main explanation of the weak relationship is because most ILGs have not implemented a set of criteria when implementing their performance indicators. The guideline for developing KPIs regularly issued by the MSAEBR only provides general directions for all government agencies to develop their performance indicators to be specific, measurable, attainable, relevant, and time-bound or generally known as the SMART concept. However, there are no specific criteria for performance indicators for local government. Based on the SAKIP scoring system, the alignment of planning documents contributes significantly improve the score. On the other hand, the performance achievement is not the main focus on the assessment and only contributes 20% of the total score.

Consequently, ILGs use SAKIP interactively only to find ways to improve their SAKIP score. Interviews revealed that all respondents view low SAKIP score and its corresponding consequences as the undesirable result of the negative perception that needs to be addressed. While most ILGs aim for a minimum acceptable score, those with high SAKIP scores create a team within their organisation consisting of staff from various departments to discuss and follow up the recommendations from the MSAEBR. The team is focused on finding ways to increase the SAKIP score and to encourage departments to follow up the MSAEBR recommendations. These ILGs showed initiative in getting more intensive assistance from the MSAEBR by visiting the MSAEBR office to have a consultation session regarding SAKIP implementation.

Several ILG leaders use the information from the evaluation result from the MSAEBR and from the SAKIP system to evaluate individual departmental performance and monitor their progress. If the heads of non-performing departments fail to show any sign of improvement, they are likely to be replaced or demoted. This activity is related

to the ILG's effort to improve its SAKIP score. By improving departmental performance, the ILG's overall performance would be improved. The improved performance and the use of SAKIP to assess the heads of department will eventually improve the SAKIP assessment score.

7.3.3   Research question three: MCS impact on organisational learning

The results of the quantitative study identify the utilisation of SAKIP influenced the ILGs' organisational learning capabilities. The model used in this study was adapted from Widener (2007) and modified into Indonesia's political and regulatory context. The adapted model incorporates (1) diagnostic use of SAKIP and (2) interactive use of SAKIP to better understand their impact on ILGs' learning abilities.

Organisational learning

In the second phase of this research, the organisational learning[26] variable was used to measure the ILGs' ability to collect, store, and distribute knowledge from past performance that can be used to trigger learning. An ILG's intention to use the identified capability to change its structure and process was explored in the third phase of the research.   Descriptive results of analysis for organisational learning from responses provided ILG officials are provided in Table 5.12 in Chapter Five.

The survey indicated that all ILGs have the procedures and ability to collect, store, and distribute information that could be used for detecting problems and proposing solutions (mean = 3.90). However, the capacity is only considered to be moderate. The survey identified that periodic meetings and formal communication channels are the two main elements in distributing information in ILGs. These findings confirm that most ILGs have a regular coordination meeting routine where information about the latest innovations (indicator loading = 0.82) or new best practices (indicator loading = 0.83) could be shared among ILGs' managers. Databases (indicator loading = 0.74) and mail directories (indicator loading = 0.78) were also found to be used in storing and recalling information in ILGs.

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[26]   Organisational learning in this study refers to the organization's capability to acquire, share, interpret, and recall knowledge with the intention to change their structure, culture, and behaviour over a sustained period of time (Barrados and Mayne, 2003; Huber, 1991).

On the other hand, the statistical results from phase one do not thoroughly explain the ILGs' ability to utilise all the information acquired and stored for fine tuning or changing their business strategy. In order to answer this question, the qualitative study phase focused on exploring SAKIP's role as the tool to trigger change in an organisation.

Hypothesis 6a (H6a): *The emphasis ILGs place on the use of SAKIP in a diagnostic control system is positively associated with an organisation's orientation to learning.*

The diagnostic control was employed to examine notable variances in the ILG's performance overtime. The diagnostic use of SAKIP means it was used in a single-loop[27] learning where managers altered their actions without making any major change.

Results reported in Table 7.1 suggests that the diagnostic use of SAKIP has a weak relationship with organisational learning capabilities (t value = 1.69, p<0.01), suggesting that the use of SAKIP positively contributes to the ILGs' capability to record and store information. SAKIP is linked with the budgeting and accounting information and regularly acquired and updated. Despite the majority of ILGs using SAKIP diagnostically only for the purpose of the MSAEBR evaluation, single-loop learning is achieved when the performance of all departments is regularly evaluated. The evaluation process is conducted formally by the internal audit department. All departments within ILGs are required to prepare their performance report to be evaluated by their internal audit department. The evaluation result is used by the ILG's leader to assess the performance of each head of department, and by the MSAEBR to assess the ILG's overall performance.

Hypothesis 6b (H6b): *The emphasis ILGs place on the use of SAKIP in an interactive control system is positively associated with an organisation's orientation to learning.*

The interactive use of SAKIP is employed to develop opportunity-seeking and double-loop learning. Double-loop learning allows organisations to provide solutions that

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[27] Single-loop learning refers to the development and use of performance information to perceive errors and offer adjustment to current practices.

require modification to their major policies. It also allows organisations to explore for alternative solutions, investigate new routines and innovate with new policies. From the qualitative phase, it was revealed that the ILG's main reason for using SAKIP interactively is to look for opportunities to improve their SAKIP score.

A statistically significant (t value = 4.25, p<0.01) and strong relationship between the interactive use of SAKIP and organisational learning variables was found and is illustrated in results shown in Table 7.1. This empirical finding indicates that the interactive use of SAKIP to improve its score positively contributes to the ILGs' capability to record and store useful information for future use. This finding from the survey was followed up in interviews to further explore the ILGs' double-loop learning capabilities. Interviewees were asked about the use of SAKIP to perform activities that indicate the organisation's learning capacity. Activities examined were: the availability of a discussion forum where all employees are free to voice their ideas, the organisational ability to examine their current standard operating procedures (SOPs) and review them on a timely basis, the organisations ability to change its structure to meet current challenges, the use of performance information as the basis for HR policy, and the use of performance information to trigger innovation. Interview discussions revealed that the organisational learning capabilities in ILGs were still limited to collecting and storing knowledge, which is consistent with the earlier survey findings.

Results indicated that ILGs still appear to be unable to use the knowledge to intentionally adjust their routines, structure, or behaviour to adapt to dynamic change in their environments. Interviewees revealed that ILGs are still unable to use performance feedback information to change their organisations structure to align with current circumstance and challenges. Any change in the structure needs to be aligned to the regulations issued by the MOHA. The ILGs' inability to modify their structure can result in overlapping roles, wasted resources, and missed opportunities when their current structure is no longer compatible with ongoing challenges.

Interviews also reveal that most ILGs do not clearly link organisational performance with individual performance, leading to the individuals' failure to know their part in overall organisational performance. This finding also indicates that ILGs find it difficult to get feedback from their staff about improving organisational strategy. Some interviewees admitted that instead of individual performance, ethnicity or political

affiliation were still important factors in the human resource policy in ILGs. Such practices clearly impede ILGs from linking SAKIP with individual performance measurement. This finding reflects the growing importance of ethnic group in maintaining stability in Indonesian local governments identified in previous research (Gudgeon, 2016; Nasution, 2016).

The majority of interviewees did not have a discussion forum available in their organisation's structure where opinions toward ILG performance could be freely expressed and ideas unreservedly raised. The coordination meeting was not considered a discussion forum because it was limited to senior officials only.

Finally, there is no research mechanism in place to follow up performance feedback from SAKIP. Such a mechanism is essential for an organisation to provide a formal opportunity for ILG staff to reflect on their current work and to conduct experiments in policy. On the other hand, most current innovations in ILGs are still driven by the MSAEBR, which also holds an annual innovation competition for all ILGs.

Hypothesis 6c (H6c): *The emphasis ILGs place on the use of SAKIP in an interactive control system is positively associated with the emphasis they place on the use of SAKIP in a diagnostic control system.*

The evidence reported in Table 7.1 reveals that there is a statistically significant and strong relationship (t value = 9.83) between interactive and diagnostic use of SAKIP. This result empirically suggests that the interactive use of SAKIP can influence the diagnostic use of performance measures embedded in SAKIP. Interviews revealed that some ILG leaders built a team to improve their SAKIP system and achieve better SAKIP assessment scores. The team consists of people from different departments. The role of the team is to move the bureaucracy, to manoeuvre among rigid and sometime conflicting regulations, and to incorporate other existing control systems with SAKIP. After a series of discussions and consultation time, all departments finally understood the leader's expectations toward SAKIP utilisation within the ILG. As a response, all departments started to update their SAKIP with information that aligned with budgeting and planning control systems. Later, the newly revised SAKIP was electronically integrated with other systems to help the leader and managers to use SAKIP for

monitoring the ILG's critical success factors and communicating achievement.

7.3.4   Research question four: institutional theory and SAKIP

This thesis employed institutional theory to examine the institutionalisation of SAKIP, as ILGs align with the prevailing conventions, such as those related to government regulations or the performance of other ILGs. After 16 years of implementation, SAKIP has been institutionalised and adopted without question by ILGs. SAKIP has become a rationalized myth codified into formal regulations and accepted as one of the many standards or norms in Indonesian government. By conforming to SAKIP, ILGs appear to be proper government organisations that are conducted in efficient, effective and accountable ways. ILGs adopt SAKIP in order to avoid criticism and gain legitimacy from their stakeholders.

7.3.4.1 Institutional demands surrounding SAKIP implementation in ILGs

Institutional theory acknowledges that human actions and routines are major factors that shape institutions. At the same time, these actions and routines can be influenced by the prevailing institutions that govern organisational activity (Scapens and Burns, 2000). The theory emphasises the contribution of the external environment, such as social, political, and cultural factors, in shaping organisational form and process become accepted, and provides guidelines for social behaviour ((DiMaggio and Powell, 1983; Meyer and Rowan, 1977; Scapens, 2006; Scott, 2014). In order to gain legitimacy from their constituents, ILGs will need to include new organisational innovations to enhance accountability reporting. Eventually, the new innovation becomes part of a taken-for-granted prescription for appropriate conduct (Scott, 2001).

When a new innovation is not fully aligned with existing institutional demands, organisations may actively shape the new initiative to achieve legitimacy. Organisations can do so by strategically altering the institutional scripts to align an innovation with their organisational characteristics. From the survey and the interviews, it can be seen that SAKIP does not fully align with ILGs' existing institutional demands. In order to align SAKIP with other demands, ILGs and the MSAEBR altered the meaning of accountability in SAKIP as the process of matching the ILGs' mission, vision and five-year plan performance indicators with their annual KPIs and budget. According to institutional theory, The MSAEBR's and ILGs' roles in changing the institutional

scripts were influenced by the following institutional demands.

Firstly, the implementation of performance-driven logic in ILGs did not completely remove the practice of the old line-item budget approach. The approach has been used by ILGs for a very long time. Contradicting the performance-based budgeting system, the line-item budget approach did not consider performance as a factor in preparing and executing the budget. It simply focused on the spending of the allocated budget and not on the efficiency and effectiveness basis. The old system did not include a long-term development plan in drafting the current year's budget and simply increased certain percentages from the previous year's budget.

Despite no longer being part of the system, the line-item incremental budget logic is still prevalent in both ILGs and central agencies. Many Indonesian government agencies still focus on spending the allocated budget instead of achieving the targeted goals. MOHA still issue budget monitoring forms that place emphasis on the absorption of budget money, with a template similar to a line-item budget, rather than on evaluating performance. The existence of the old line-item budget logic puts pressures on ILGs to gradually modify SAKIP's original meaning to maintain stability with other stakeholders and, at the same time, achieve legitimacy.

Secondly, ILGs are still affected by the long-standing traditions and norms from the command-and-control demand from central government. ILGs still strongly believe that, as the part of the unitary state of Indonesia, they need to adhere to central government rule and align their objectives with the national interests. This logic is inherited from 53 years of a centralistic government system before it shifted into a decentralised system implemented in 2001. ILGs that used to simply carry out orders from the central government now have huge decision-making authority and substantial financial resources (Sjahrir, Kis-Katos, and Schulze, 2014). Therefore, ILGs prefer to passively wait for national regulations issued by central government prior to formulating a policy.

The tendency for ILGs to wait for a regulation from central government prior to implementing a policy impedes the interactive use of SAKIP. When there are conflicting national regulations, ILGs prefer to halt the innovation and look for an explanation than to take a risk by implementing it. They get annoyed and confused

when the MSAEBR, MOHA, and MOF issue conflicted regulations regarding measuring and reporting ILG performance.

Finally, the complexity of Indonesia's democratic political process and parliamentary conflicts of interest in local government budgeting makes the drafting process too complicated and it discourages ILGs from revising their strategic plan even when it is necessary. Decentralization and the democratic political process do not decrease the corruption that had reached epidemic levels prior to the reform. The local political process is shadowed by money politics and the rise of powerful local self-interested businesses that are involved in the process (Sjahrir et al., 2014). Sjahrir, Kis-Katos, and Schulze (2013); Sjahrir et al. (2014) argued that a lack of political accountability is responsible for the wasteful local government administrative spending. Their findings indicate the deep involvement of political elites (i.e. local businesses) in the budget drafting process, causes the process to become complicated and difficult to follow. For example, the practice of hiding budget money by allocating significant amounts in miscellaneous administrative accounts is still common in ILGs. Such practice is still prevalent because ILGs need to accommodate requests from politicians to fund specific projects for their constituents or to give grants for political purposes. The complexity in discussing budgets with politicians discourages ILGs from regularly modifying their planning documents. The interviews revealed that ILGs were reluctant to adjust their strategic plan and five year budgets even if they need to because of the complicated political process with the local parliament.

Recognizing contradictions between SAKIP and the prevailing institutional demands, ILGs are required to strategically respond to them to maintain their image in accordance with a set of society's rules and expectations.

ILGs' strategic responses to institutional pressures

The results from the quantitative and qualitative phases indicate that after 16 years of SAKIP implementation, ILGs are entwined with institutional requirements and face multiple pressures and institutional demands from diverse stakeholders. The SAKIP regulations define SAKIP as the system that collects, measures, classifies, and reports performance information in order to improve ILGs' performance and accountability. The SAKIP system requires agencies to describe their mission, vision, strategic

objectives, and key performance indicators (KPIs), and provides mechanisms to link KPIs with the agency's objectives and budget (Rhodes et al., 2012).

On the other hand, ILGs have difficulties streamlining their mission and vision with their KPIs and budget. They do not want to change their five-year strategic plan because they want to avoid a long political process between ILGs and local parliaments. The intense involvement from political elites during the budget drafting process also creates another difficulty for ILGs trying to smoothly align their planning documents. In addition, political elites can ask the ILGs to include their proposals in the annual budget despite the proposals' lack of correlation with the ILG's missing or five-year plan.

As previously mentioned, the central government has introduced a performance accountability report evaluation system to assess local government performance and to analyse the implementation of the SAKIP and give recommendations for improvement. Some ILGs believe that the concept of being accountable has been simplified into achieving a good SAKIP evaluation score. Every year the MSAEBR evaluates the SAKIP implementation and assigns a score for each ILG. The list of the SAKIP scores is published and the ILGs with the best scoring receiving an award in the annual SAKIP Award ceremony attended by important national figures. The SAKIP Award ceremony has created another pressure for ILGs whose leaders do not want to face negative attention caused by a low SAKIP score.

The strategic response of compromise to tackle multiple institutional demands

To manage the multiple demands from different stakeholders, ILGs shape their legitimacy by engaging in strategic isomorphism and by choosing the strategic response of compromise. The strategic response of compromise requires ILGs to accommodate institutional demands and negotiate acceptance behaviour with institutional stakeholders. ILGs try to balance the expectations of their constituents by accommodating their demands and through negotiation.

Concerning the conflict between line-item budget and performance-based demands, the study found most ILGs try to attain a balance by adopting both logics in different time frames. While most of the time ILGs use information from finance and activity to monitor the progress of current year programs and the actual use of budget money, they intentionally use SAKIP during the system's implementation assessment period. ILGs

interactively use SAKIP to identify efforts to improve their SAKIP assessment score and to encourage their departments to implement those efforts. Most of them discuss performance achievement and SAKIP implementation near or during the MSAEBR's assessment process.

ILGs also manoeuvre through various regulations applied upon them by identifying and delivering only the minimum requirements for each regulation initially, and fulfilling the rest of the requirements over time. By conforming to minimum standards, ILGs alter SAKIP practice that accommodates facets of conflicting demands and reconciles them.

In order to avoid embarrassment and to be seen as accountable, ILGs recognise the importance of having a good score in their SAKIP assessment. With the aim of achieving a good SAKIP score, ILGs look to the MSAEBR for advice regarding their SAKIP implementation activities. The MSAEBR and the BPKP help ILGs in identifying elements in the SAKIP scoring system that could significantly improve their score. They also provide ILGs with some tips and tricks for improving their SAKIP score. For example, the MSAEBR highlighted to ILGs the multiplicity in SAKIP scoring elements that can be used to significantly boost their score. Based on the interviews, the SAKIP score of "CC" is considered to be the minimum "safe" score that needs to be achieved to avoid negative attention during the SAKIP award ceremony. Aiming for the minimum has resulted in limited utilisation of SAKIP. Most ILGs link the use of SAKIP with the purpose of achieving a better score. At the same time, ILGs also have limitations in using performance feedback from the SAKIP system for developing opportunity-seeking and learning capabilities.

Besides resisting institutional pressures, ILGs choose to strategically respond to the conflicting demands by modifying institutional scripts to align with ILGs' characteristics. ILGs modified the concept of accountability in SAKIP into a process of streamlining their mission and vision with their KPIs and budget in order to achieve a better SAKIP score and avoid humiliation. The modified concept of SAKIP is more easily understood by the ILG bureaucrats. Several ILG leaders went the extra mile by developing a computerized SAKIP system and forming a special team consisting of staff from the planning and reporting departments. Such a team disseminates the SAKIP concept and trains all ILG departments to prepare their SAKIP, in ways that facilitate higher and perhaps award winning SAKIP scores.

ILGs did not choose a decoupling strategy to face competing institutional demands because such strategy requires an organisation to avoid the scrutiny of external referents on a long-term basis. The performance and the SAKIP assessment reports are two major reports reviewed annually by the MSAEBR. The SAKIP's annual assessment by the MSAEBR does not allow ILGs to implement a decoupling strategy to be implemented over an extended period of time.

Through bargaining with the MSAEBR and by modifying the concept of accountability in SAKIP, ILGs are able to partially respond to conflicting institutional demands and avoid losing approval from their key stakeholders. However, the strategic response of compromise has also brought an undesirable consequence to the ILGs' organisational learning capabilities. SAKIP is not effectively used interactively due to the alteration of its accountability concept and the ILGs' inability to modify their policy and structure to respond to its changing environment.

Isomorphism related to SAKIP implementation

There were three types of institutional isomorphism displayed in SAKIP adoption and implementation. Coercive isomorphism mainly came from the MSAEBR, MOHA and BPKP central government agencies that were able to establish rules, monitor compliance and provide recognition. Despite there being some contradictions among the regulations that could lead to confusion, ILGs still conform to the series of SAKIP-related regulations issued mainly by the MSAEBR. Scoring a good grade in the SAKIP annual evaluation can help ILGs to maintain their legitimacy and to build their image as organisations that plan and allocate their resources.

Mimetic isomorphism occurred when some ILGs searched for SAKIP best practices from other ILGs that had a better SAKIP score. By imitating SAKIP practices from each other, ILGs are associating themselves with accepted activities and practices. An ILG with a better score is portrayed as an organisation that others perceive to be more accountable and to have successfully implemented SAKIP.

The process of normative institutionalisation in ILGs is derived from social expectations and norms practiced by the MSAEBR and BPKP. The MSAEBR and BPKP are two central agencies that have sufficient resources and skilled personnel to provide ILGs with SAKIP best practices and to help them to improve SAKIP implementation. They

regularly issue or update SAKIP guidelines; and they allow ILGs to have several consultation sessions or run SAKIP workshops with them.

7.4   Contribution of this Study

The results of this study contribute to the management control system literature in several ways. First, in light of limited research on a centralistic management control system in the public sector in Indonesia or other developing countries, this study is one of the first known studies examining the diagnostic and interactive use of mandatory management control system practices in a local government context using institutional theory. Most prior studies did not specify the way ILGs utilise the performance information collected. The use of the diagnostic and interactive controls in the empirical model is important to explain the link between the utilisation of a control system and it is impact on organisational learning capabilities. Therefore, the findings of this study contribute to the growing literature on MCSs by focusing on the adoption and use of MCSs as a means to achieve organisational learning capabilities at provincial and municipal levels of government in Indonesia.

Second, this study contributes to an understanding of the complex issue of institutional change. It contributes to the literature on institutional theory by identifying ILGs' strategy and actors in managing institutional demands surrounding the implementation of SAKIP. Institutional theory describes the factors that drive organisations to fully or symbolically utilise new innovations in order to meet demands from different stakeholders (Tillema, Mimba and Helden, 2010). Internal and external stakeholders are identified as playing important roles in shaping the power in an organisation (Ma and Tayles, 2009).

This study enriches our understanding by including actors that actively managed the competing institutional demands embedded in the field of ILGs. Besides simply accepting environmental pressures, ILGs were found capable of modifying an existing institutional prescription. ILGs were also able to align and adopt rationalized myths into their structure in order to bring benefits for themselves. By complying with existing institutional scripts, ILGs gain confidence and space within which to operate with minimal external oversight. Therefore, the findings of this study are expected to be the basis for subsequent studies that examine diverse interests within an organisation and

reposition key actors as factors in the adoption of new strategic management accounting.

Finally, this study used survey and in-depth interviews to collect data in this thesis. Incorporating elements of quantitative and qualitative research approaches increased the rigor of the study by providing a better understanding of the research issue. The quantitative research was able to expose the causal relationship among MCS adoption, utilisation and other variables. On the other hand, the qualitative research was able to provide explanations of the results of the quantitative findings, such as institutional pressures involved in the causal relationship between the observed variables. This study has demonstrated the applicability of a mixed method in the field of public sector management and management accounting research.

7.5   Managerial and Policy Implications

7.5.1   Managerial implications

The findings of this study indicate that the implementation of a centralistic management control system in ILGs is mainly driven by central government pressures. The ILGs respond to initiatives by conforming to pressures in order to earn social legitimacy and improve survival capabilities for their operation. The implications of the findings underline the complexity surrounding the local government environment in an emerging economic and political system. The findings indicate that there are structural constraints that create challenges for ILGs in respect to organisational learning and innovation. The findings also showed that the success of a centralistic initiative is determined by how ILGs manage the various institutional demands surrounding them. Therefore, in terms of practical managerial implications, this study suggests that ILG managers intensify their interaction with the MSAEBR through training and consultation in order to maintain the availability of relevant SAKIP skills and expertise within ILGs.

Secondly, the findings emphasise the crucial role of ILG leaders in utilising SAKIP as a tool for learning. Without a strong direction from the leader, SAKIP will just be another system that collects information but fails to lead to improvements because an ILG's management is not equipped to follow up the performance feedback.

Thirdly, the findings indicate the necessity for ILG leaders to foster an innovative

culture that emphasises dialogue and discussion. Therefore, this study suggests the establishment of learning forums that provide communication channels between managers and their staff. Kroll (2015) suggested that learning forums allow managers and employees to reflect on their core process and performance, to suggest possible solutions, and to receive feedback regarding their suggestion. The findings also show the need for ILGs to have a formal structure and routine in place that support ILG staff to review past practice and to experiment with new ideas in order to anticipate the future.

7.5.2   Policy implications

This research also has important policy implications for the understanding of the social and political antecedents faced by ILGs. Since internal and external actors were identified as playing important roles in shaping institutional demands surrounding the implementation of SAKIP in ILGs, the finding showed that policy makers in the emerging economy countries including Indonesia should never underestimate the complexities in the adoption of commercial and western style reporting systems in their jurisdiction. The findings indicate that policy makers and international donors should understand the environmental background and consider the social context of the public in emerging economy countries in order to achieve an effective reform.

The findings showed that by accommodating different institutional demands, ILGs alter the meaning and purpose of SAKIP to make it acceptable to all important stakeholders. One major reason for the competing institutional demands in ILGs is the lack of consistency between SAKIP and other related regulations. The inconsistencies in the regulations create a degree of uncertainty regarding SAKIP's role in an ILG's planning, budgeting, and reporting cycle. The uncertainties within the environment drive ILGs to imitate others perceived to be more successful in SAKIP implementation. A successful ILG in SAKIP implementation was represented by winning a SAKIP award, also known as the accountability award. As a result, the original ideal of accountable organisations that properly plan and allocate their resources to improve long-term future performance has now been reduced to merely winning the award. The MSAEBR and BPKP accentuate this altered definition by providing assistance to improve ILGs' SAKIP score.

The findings indicate that coercive pressures can still be used to force ILGs to adopt

central government programs. Scott (2005) claimed that regulations are much stronger institutions than belief systems, practices and norms. SAKIP-related regulations set the boundaries by defining the limits and scope of the new system. However, the perplexity in SAKIP's definition due to conflicting regulations contributes to weakening the coercive pressure in the long term. Without clear and consistent coercive pressure, the meaning of SAKIP may gradually drift away as a result of the interactions among competing institutional demands. In a paternalistic environment such as Indonesian local government, mimetic and normative pressures use and preserve a reduced meaning, rather than as intended in the original definition of SAKIP. Therefore, a focus on implementing a consistent coercive pressure with well-defined rewards and punishment is essential for successful reform in ILGs. It is also important to note that the lack of clarity in SAKIP regulations can encourage important stakeholders such as the MSAEBR to shift the institutional pressures from coercive to normative pressures.

Secondly, the findings also indicate that a central government agency initiative needs to be aligned with other agencies' programs and agendas. Failing to do so will lead to confusion within ILGs and reduce the meaning of the initiative itself. ILGs may eventually implement the initiative for symbolic purposes but fail to fully utilise it due to their inability to see the benefit and full potential of the program.

The findings of this study suggest that central government plays the most important part in the implementation of SAKIP. Since all MCSs (SAKIP, accounting, and budget systems) in ILGs were initiated by central government agencies, it is crucial for the MSAEBR, the Ministry of Finance, the MOHA and the Supreme Audit Institution to work together to ensure the meaningful utilisation of these systems.

In order to improve local government efficiency and effectiveness, central government should be able to establish a logical link and clear explanation between the results of: (1) the SAKIP assessment and financial audit; (2) Budget evaluation and SAKIP assessment; (3) Budget evaluation and financial audit opinion. At the time of completing this research, there is no assessment framework linking the three management control systems that are very similar to one another. An ILG can have a good financial audit opinion but receive a low SAKIP score at the same time. The central government's inability to set up a logical framework that connects the three management control systems may increase conflicting demands in the ILG environment

and eventually reduce the meaning of the MCS.

Central government agencies must have a shared understanding in interpreting the conflicting institutional demands surrounding ILGs. One particular demand is the deep involvement of political elites during the budget drafting process. Such involvement encourages ILGs to hide budget money to anticipate future demands from political figures. Central government agencies should clearly describe such practice as fraud. They also need to take necessary collaborative actions to discontinue this practice by exercising their coercive power. For example, the MSAEBR should take this issue into account by reviewing the internal and external audit reports when evaluating submitted SAKIPs.

In order to improve the ILGs' organisational learning capabilities, the MOHA should provide a certain degree of flexibility for ILGs to manage their organisational structures. ILGs would then be able to interactively follow up performance feedback from their SAKIP system in order to cope with environmental change and to adapt to new challenges.

7.6   Limitations and Future Research

The limitations of the research are mainly associated with the study being confined to local government in Indonesia. Therefore, generalizing the results to other jurisdictions should be made with caution. Secondly, the study used a survey that mainly consisted of closed questions that required self-rated responses. There is a potential bias if respondents misinterpreted some questions or provided common responses rather than reflecting on their actual situation. However, a pilot test and the inclusion of space to allow for comments helped overcome this limitation. Lastly, the cross-sectional study in the thesis only provides a static representation of the relationship between variables in the conceptual model. Therefore, the specific combinations among variables were relevant at the time the study was conducted.

The immediate future research potential is to observe the implementation of SAKIP and its impact on the learning capabilities in Indonesian central government agencies. In total, Indonesian central government agencies are appropriated with 1,315.5 trillion rupiah, equivalent to 63% of the total national budget. By covering central government agencies, these research results contribute to improving the adoption and use of SAKIP

by Indonesian government agencies in the future. Another possible research focus could be a longitudinal study on the implementation of SAKIP in several ILGs in order to get a more complete picture, taken from different perspectives.

7.7   Summary

This study provides important insights regarding the adoption and implementation of central government initiatives by ILGs. This study is one of few studies to address the implementation of a centralistic MCS by focusing on the diagnostic and interactive use of MCSs as a means to enhance organisational learning capabilities at provincial and municipal levels of government in Indonesia.

Another important strength of this study is the inclusion of institutional factors to reveal the complexity and the dynamic process of adopting NPM-style control systems by highly bureaucratic local governments. The study, which views SAKIP as an integrated control system, provides insights into how performance measurement practices become accepted and modified by local governments in Indonesia.

The findings from this study will equip ILG managers with a better understanding of the pressures and factors surrounding the implementation of SAKIP and allow them to identify areas that will improve their use of SAKIP in their ILGs. The empirical findings of this thesis are potentially important for regulatory bodies, local governments, central governments, and the users of local government performance reports. The findings can be applied to develop and improve public sector governance and ILGs' organisational learning capabilities.

From a theoretical perspective, there is evidence to support the use of isomorphic institutional theory as a useful framework for explaining the adoption and use of MCSs as a means to enhance organisational learning capabilities at provincial and municipal levels of government in Indonesia.

In addition, the results of this study reveal how performance measurement practices became accepted and actively modified by local governments in Indonesia. Overall, the results of this study generate important insights about the implementation of a centralistic management control system in Indonesian local governments.

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Appendices

Appendix 1: Survey Letter

<date of letter>

Dear Sir/Madam,

I am currently undertaking research for my Doctor of Philosophy at Curtin University, Western Australia. The research will focus on the use of *Laporan Akuntabilitas Kinerja* (LAKIP), particularly on identifying the relationship between the adoption of LAKIP and organisational learning capabilities in local governments within Indonesia.

My research will provide contextual internal and external insights regarding the pace and extent of implementing LAKIP. The research specifically focuses on the diagnostic and interactive use of LAKIP and its relationship to Indonesian Local Governments (ILGs) strategic success. As well, it is expected to facilitate information concerning the distinctive potential of LAKIP for ILGs.

The first stage of this research requires obtaining information via a questionnaire that needs to be completed by ILG officers who are directly responsible for reporting and administering LAKIP. It would be appreciated if you could arrange to have the attached questionnaire completed and returned in the enclosed, pre-paid envelope by April 25, 2014. A second pre-paid envelope is provided if you decide to complete and detach the follow up contact details section at the bottom of the introductory letter.

All information will be treated with confidentiality and will be stored in a secure location. Only the researcher and supervisors will have access to the information for the purposes of the research project. No participant will be personally identifiable in any published material.

Your assistance in providing this information is greatly appreciated. If you have any queries or comments regarding this request please contact Rony Sitorus on email ronylahi.sitorus@postgrad.curtin.edu.au, phone + 62 817 6675 350, +61 4 51787355 or fax +61 8 9266 7694.

Yours faithfully

Rony Sitorus	**Associate Professor Robyn Pilcher**
Doctoral Student	Supervisor
School of Accounting	School of Accounting

Appendix 2: Survey Instrument

Curtin University

Management Control in Indonesian Local GovernmentSurvey

Thank you for taking the time to complete this questionnaire which is being sent to all local governments within Indonesia. Participation is voluntary and return of the completed form will be taken as consent to your responses being used in collating results – a copy of which will be made available to you. Complete confidentiality will be maintained and monitored. The survey results will be reported in summary form only and not on an entity-by-entity basis. Any discussion of individual answers or comments will omit any information that could identify the respondent. It is anticipated that the questionnaire will take approximately 30 minutes to complete.

For all the questions below, please check by ticking (√) the appropriate box to indicate your response.

It would be appreciated if you could return your completed questionnaire in the enclosed reply-paid envelope within two weeks of receipt.

SECTION A

Q1 Please indicate whether your institution has any of the following performance reports:

		Yes	No
a.	Laporan Akuntabilitas Instansi Pemerintah (LAKIP).	☐	☐
b.	Laporan Keterangan Pertanggung Jawaban (LKPJ).	☐	☐
c.	Laporan Penyelenggaraan Pemerintahan Daerah (LPPD).	☐	☐
d.	Informasi Laporan Penyelenggaraan Pemerintahan Daerah (ILPPD).	☐	☐
e.	Budget Realisation Report.	☐	☐
f.	Financial Report.	☐	☐
g.	Other: Please specify...		

Q2 In your opinion how important were the following external factors in influencing the adoption of LAKIP at your institution:

		Completely irrelevant		Neutral		Very important
		1	2	3	4	5
a.	The political and economic crises.	☐	☐	☐	☐	☐
b.	Presidential instruction number 7/1999 about a government's performance report.	☐	☐	☐	☐	☐
c.	Government requirement (GR 8/2006) to integrate planning, budgeting, treasury, accounting systems and LAKIP.	☐	☐	☐	☐	☐
d.	To adapt the institution's control system in line with the requirement of the MSA.	☐	☐	☐	☐	☐
e.	Public pressure for ILGs to be more transparent, efficient and accountable.	☐	☐	☐	☐	☐
f.	Requirement to meet rules imposed by central government in relation to central government's funding	☐	☐	☐	☐	☐
g.	Other: please specify	☐	☐	☐	☐	☐

Q3 In your opinion how important were the following internal factors in influencing the adoption of LAKIP at your institution:

		Completely irrelevant		Neutral		Very important
		1	2	3	4	5
a.	Need for better performance information to anticipate less funding from e.g. DAU, DAK, DBH.	☐	☐	☐	☐	☐
b.	To provide information for those within the local government for operational (day-to-day) decision making.	☐	☐	☐	☐	☐
c.	To update the existing system as it was not able to meet the information needs of external users.	☐	☐	☐	☐	☐
d.	Requirement for tighter control of expenditure.	☐	☐	☐	☐	☐
e.	Top management of local government (Bupati/Walikota/Gubernur) wanted upgraded systems.	☐	☐	☐	☐	☐
f.	The need for cost information for performance measurement initiatives.	☐	☐	☐	☐	☐
g.	Request from the head of each operational division (SKPD) for cost information.	☐	☐	☐	☐	☐
h.	Request from the head of the administrative department for cost information.	☐	☐	☐	☐	☐
i.	Lack of decision-relevant cost information from the accounting and budget systems.	☐	☐	☐	☐	☐
j.	To provide improved information for preparing ILG budgets.	☐	☐	☐	☐	☐
k.	To provide improved financial and performance information for local government strategic planning.	☐	☐	☐	☐	☐
l.	To enable top management to compare his/her achievement with other local government's performance.	☐	☐	☐	☐	☐
l.	Other: please specify……………………………………………… ………………………………………………………………………	☐	☐	☐	☐	☐

Q4 In your opinion how important were the following factors in supporting the adoption of LAKIP at your institution:

		Completely irrelevant		Neutral		Very important
		1	2	3	4	5
a.	Commitment by top management of local government.	☐	☐	☐	☐	☐
b.	High level of involvement by MSA.	☐	☐	☐	☐	☐
c.	The clarity of LAKIP's role in the local government's financial management system.	☐	☐	☐	☐	☐
d.	Adequate number of internal staff.	☐	☐	☐	☐	☐
e.	Employment of external consultant.	☐	☐	☐	☐	☐
f.	High priority given to adopting LAKIP.	☐	☐	☐	☐	☐
g.	No resistance to the adoption of LAKIP by employees.	☐	☐	☐	☐	☐
h.	Full understanding of how to collect data.	☐	☐	☐	☐	☐
i.	Adequate resources committed to adopt LAKIP.	☐	☐	☐	☐	☐
j.	Full understanding and knowledge of data requirement.	☐	☐	☐	☐	☐

Page **2** of **6**

k.	Necessary culture and mindset within the ILG to support change.	☐	☐	☐	☐	☐
l.	Well planned training program for employee.	☐	☐	☐	☐	☐
m.	Perceived as more accountable ILG by central agencies and local stakeholders.	☐	☐	☐	☐	☐
n.	Other: please specify……………………………………………	☐	☐	☐	☐	☐

Q5 In your opinion how important were the following as barriers to the adoption of LAKIP at your institution:

		Completely irrelevant		Neutral		Very important
		1	2	3	4	5
a.	Lack of commitment by top management of local governments.	☐	☐	☐	☐	☐
b.	Lack of involvement by the MSA.	☐	☐	☐	☐	☐
c.	The opaqueness of LAKIP's role in the local government's financial management system.	☐	☐	☐	☐	☐
d.	Lack of internal staff to monitor the adoption process.	☐	☐	☐	☐	☐
e.	Lack of external consultant.	☐	☐	☐	☐	☐
f.	LAKIP was given lower priority than other LG initiatives.	☐	☐	☐	☐	☐
g.	Resistance to LAKIP implementation by employees who preferred the existing control system such as budget, financial accounting, LKPJ, LPPD and ILPPD.	☐	☐	☐	☐	☐
h.	Lack of understanding of how to collect data.	☐	☐	☐	☐	☐
i.	High cost of LAKIP implementation.	☐	☐	☐	☐	☐
j.	Lack of understanding and knowledge of data requirement.	☐	☐	☐	☐	☐
k.	Inappropriate culture, custom and mind-set of LG employees working within the institution.	☐	☐	☐	☐	☐
l.	Lack of a planned LAKIP training program for employees.	☐	☐	☐	☐	☐
m.	Not being perceived as more accountable ILG by central agencies and local stakeholders.	☐	☐	☐	☐	☐
n.	Other: please specify ……………………………………………	☐	☐	☐	☐	☐

SECTION B

Q6 Please indicate the extent to which you agree or disagree with the following statements:

		Completely disagree		Neutral		Completely agree
		1	2	3	4	5
a.	The achievement of current year output indicators are crucial in determining the next year's appropriation level.	☐	☐	☐	☐	☐
b.	The achievement of current year outcome indicators are crucial in determining the next year's appropriation level.	☐	☐	☐	☐	☐
c.	There is a mechanism to review the validity of performance indicators used in LAKIP.	☐	☐	☐	☐	☐

Page 3 of 6

d.	Review toward ILG's outcome achievement by parliament is mainly based on LAKIP.	☐	☐	☐	☐	☐
e.	In determining performance indicators, your institution has not fully implemented a set of criteria for good performance indicators such as relevance, attribution, timeliness, reliability and verifiability.	☐	☐	☐	☐	☐
f.	There is an independent review that evaluate the accuracy of information on LAKIP.	☐	☐	☐	☐	☐
g.	Other: please specify ………………………………………… ………………………………………………………………………..	☐	☐	☐	☐	☐

Q7 Please rate the extent to which your top management team currently relies on performance information in the LAKIP system to:

		To a small extent		Neutral		To a large extent
		1	2	3	4	5
a.	Track progress towards goals.	☐	☐	☐	☐	☐
b.	Monitor results.	☐	☐	☐	☐	☐
c.	Compare outcomes to expectations.	☐	☐	☐	☐	☐
d.	Review key measures.	☐	☐	☐	☐	☐
e.	Enable discussion in meetings of superiors, subordinates and peers.	☐	☐	☐	☐	☐
f.	Enable continual challenge and debate of underlying data, assumptions, and action plans.	☐	☐	☐	☐	☐
g.	Provide a common view of the institution.	☐	☐	☐	☐	☐
h.	Tie the institution together.	☐	☐	☐	☐	☐
i.	Enable the institution to focus on common issues.	☐	☐	☐	☐	☐
j.	Enable the institution to focus on critical success factors.	☐	☐	☐	☐	☐
k.	Develop a common vocabulary in the institution setting for strategy and program priorities.	☐	☐	☐	☐	☐
l.	Provide a basis for implementing reward and punishment mechanisms in the institution.	☐	☐	☐	☐	☐
m.	Other: please specify ………………………………………… ………………………………………………………………………..	☐	☐	☐	☐	☐

Q8 Please indicate the extent to which you agree or disagree with the following statements:

		Completely disagree		Neutral		Completely agree
		1	2	3	4	5
a.	Top management pays little daily attention to the LAKIP system.	☐	☐	☐	☐	☐
b.	Top management relies heavily on staff specialists in preparing and interpreting information from the LAKIP system.	☐	☐	☐	☐	☐

		1	2	3	4	5
c.	Operating managers are involved with the LAKIP system infrequently and on an exception basis.	☐	☐	☐	☐	☐
d.	Top management pays daily attention to the LAKIP system.	☐	☐	☐	☐	☐
e.	Top management interprets information from the LAKIP system.	☐	☐	☐	☐	☐
f.	Operating managers are frequently involved with the LAKIP system.	☐	☐	☐	☐	☐
g.	Top management holds reguler meetings with operating managers to discuss performance achievement reported on LAKIP.	☐	☐	☐	☐	☐
h.	Other: please specify ……………………..…………………………………… …………………………………………………………..………………………..	☐	☐	☐	☐	☐

Q9 Please indicate the extent to which you agree or disagree with the following statements:

		Completely disagree		Neutral		Completely agree
		1	2	3	4	5
a.	There are extensive formal and informal procedures and processes for the acquisition of information and knowledge from internal and external sources that are potentially useful to your institution (e.g. routine and/or special reports, government instructions, regular informal discussions).	☐	☐	☐	☐	☐
b.	The institution encourages its employees to join formal or informal networks made up by people from outside the institution.	☐	☐	☐	☐	☐
c.	New ideas and approaches on work performance are experimented continuously.	☐	☐	☐	☐	☐
d.	There are well established ways to share information and knowledge between people within your institution (e.g. formal and informal forums for debate, well developed systems and practices for sharing information).	☐	☐	☐	☐	☐
e.	Meetings are periodically held to inform all the employees about the latest innovations in the institution.	☐	☐	☐	☐	☐
f.	The institution has formal mechanisms to guarantee the sharing of the best practices among the different fields of the activity.	☐	☐	☐	☐	☐
g.	The institution's beliefs, attitudes and ways of doing business provide a strong basis for interpreting information (e.g. the institution's mission, or culture, is reflected in distributed information).	☐	☐	☐	☐	☐
h.	All members of the institution share the same aim to which they feel committed.	☐	☐	☐	☐	☐
i.	Employees share knowledge and experience by talking to each other.	☐	☐	☐	☐	☐
j.	The institution stores information and knowledge from prior experiences in formal systems (e.g. data bases, documentation of programs, plans, procedures and reports).	☐	☐	☐	☐	☐
k.	The institution has databases to store its experiences and knowledge so as to be able to use them later on.	☐	☐	☐	☐	☐

Page **5** of **6**

| I. | The institution has directories or emails filed according to the field they belong to, so as to find an expert on a concrete issue at any time. | ☐ | ☐ | ☐ | ☐ | ☐ |
| m. | Other: please specify .... | ☐ | ☐ | ☐ | ☐ | ☐ |

SECTION C

1. Please specify which department is in charge in preparing the following reports:

   a. LAKIP is prepared by: _____ department

   b. Financial report is prepared by: _____ department

   c. Budget realisation report is prepared by: _____ department

2. Type of local government: ☐ Provinsi ☐ Kabupaten ☐ Kota

3. Gender ☐ Male ☐ Female

4. Age ☐ < 30 ☐ 30 – 40 ☐ 41 - 50 ☐ > 50

5. Highest Education Level ☐ High School ☐ Bachelor ☐ Master ☐ Doctoral

6. Education Field ☐ Accounting ☐ Other (please specify): _____

7. The last local government's performance evaluation training attended:

   ☐ <2 years ago ☐ 2-5 years ago ☐ >5 years ago

8. Years of employment in government ☐ <2 ☐ 2-5 ☐ 6-10 ☐ 11-15 ☐ >15

9. Years of employment in current position ☐ <2 ☐ 2-5 ☐ 6-10 ☐ 11-15 ☐ >15

INTERVIEW GUIDELINES AND LIST OF QUESTIONS

Preparation and logistics

- Information sheet and consent letters were distributed to all potential interviewees in advance. Consent letters have been collected from the interviewee before conducting any interview session.

- Researcher contacts the interviewee to arrange the preferred location and time of the interview.

- Each interview should run for about 45 to 60 minutes.

- A voice recorder should be installed properly before conducting the interview.

- Don't forget to notify the interviewee:

  ➤ to provide honest feedback to each of the questions as their answers are essential

  ➤ to the objectives of the research. However, they have liberty to not answer any of the questions if they feel inappropriate.

  ➤ that their answers are confidential and their profiles will not be identified in any research publication except by the researcher and research supervisor..

  ➤ that audio recording devise is used to document in the interview.

INTERVIEW INSTRUMENT AND LIST OF QUESTIONS	
Interview number/code	:
Date/time	:
Department/unit	:

1

A. Opening and introduction for developing positive rapport (Estimate time: 5 mins)

1. Expressing gratitude for his/her willingness to do the interview.

2. Re-explaining the topic and purpose of the interview.

3. Gathering some basic demographic/profile information about the interviewee.

Age	:	
Gender	:	
Education	:	
Year joined the civil servant	:	
Tenure in the current position	:	

B. SAKIP Overview and Factors Adopting SAKIP (Estimate time: 10 mins)

1. There are several performance reports issued by your office, such as monthly and quarterly activity reports, LKPJ, LPPD, LAKIP, financial reports and special fund report. Which report is mostly used by the Mayor/Regent/Governor and other top level officials for the coordination meetings? Which report is the least used? Why?

2. What aspects of the performance reports that top ILG officials are mostly interested in?

3. What is the central agencies' main focus when they review ILG's performance reports?

4. What is the main factor that drive ILGs to use/not using SAKIP? Is there any formal/informal incentive or punishment from any central agency if the ILG fails to submit SAKIP? Is the yearly ranking issued by the MSA and MOHA significant enough as an incentive for ILGs? Do you think the Audit Office or the Corruption Eradication Commission use SAKIP as one of their resources in overseeing ILGs' activities? If yes/no, why?

5. From your experience, do managers or staff from technical division (e.g. Road and Building divisions) know that ILGs prepared and submit LAKIP report to the central government? If yes, how well they know about it? Do they routinely provide data required to prepare LAKIP report?

C. SAKIP as the Source of Information (Estimate time: 15 mins)

6. What are the main source of information for the Mayor/Regent/Governor in identifying important issues and problem in the local society that need to be jointly tackled by two or more divisions? Where is SAKIP's position in this matter? How does the Mayor/Regent/Governor regularly monitor the PI's on SAKIP? Does he/she monitor general or specific issues? How often and close the Mayor oversees the ILGs PI's achievement in SAKIP?

7. How does SAKIP communicate the progress of the Mayor/Regent/Governor's key programs (i.e. campaign promises) to the internal ILG? What are the media used? (report, email, newsletter or magazine).

8. Is SAKIP part of the problem solving mechanism in ILGs? How does it work and how often is it used for the purpose?

9. Are the performance indicators and performance information in SAKIP used as the basis to promote or demote ILGs staff and senior officers?

10. Between LAKIP report and LPPD, which one is more often used as the basis for decision making? Why?

3

D. SAKIP as the Source of Discussion (Estimate time: 3 mins)

11. Is there regular forum for internal ILG where staff can discuss the departments or ILGs general achievement? If YES, how often does it happen in a year and who can attend it? What is the media used as the main material for the meeting? What are the topic of the meeting? If there is NO regular forum, why? Is there any alternative?

E. SAKIP as the Tool to Distribute Information (Estimate time: 4 mins)

12. Does the ILGs offer opportunities to diverse department to learn from each other (visits to other parts of the organization, internal training programmes, etc.) so as to make individuals aware of other people or departments' duties and how they use SAKIP?

13. Does ILGs have internal rotation programs policy to facilitate the movement of employees from one department or function to another? How about the staff from your department. Are they also regularly transferred to other department? Once transferred, are they also given SAKIP related tasks?

F. SAKIP and Organisational Memory in ILGs (Estimate time: 6 mins)

14. Does your ILGs have formal mechanisms that allow more experienced staff to share their knowledge to the new or less experienced ones?

15. Do you use the old LAKIP reports as references when preparing for the current year one? If Yes, why? (Possible answer: because the current year programs are similar with last year ones)

16. Did the technical department find difficulty in finding last year LAKIP report? How do they keep the LAKIP reports?

4

G. Closing (Estimate time: 2 mins)

17. Expressing gratitude for his/her participation in the research

18. Telling him/her about the possible future contact to clarify something

H. Researcher note about the interview

19. Thinking about the questions and answers (content) as well as the interview process. Please write down aspects of the interview which went well and what could be improved for the next interview.

5

Appendix 4: Participant information statement

<h1 style="text-align:center">PARTICIPANT INFORMATION STATEMENT</h1>

Management control system in Indonesian Local Government

What is the Study About?

The aim of the study is to identify the relationship between the adoption of LAKIP and organisational learning capabilities in Indonesian local governments (ILGs). The study will recognise contextual internal and external variables affecting the pace and extent of implementing LAKIP. It specifically focuses on the diagnostic and interactive use of LAKIP to ILGs strategic success.

Who is Carrying out the Study

The study is conducted by Rony Sitorus, a PhD Student within the School of Accounting, Curtin University, Perth Australia. He is under the supervision of Associate Professor Robyn Pilcher and Dr. Brian Perrin from the School of Accounting, Curtin University, Perth Australia.

What Does the Study Involve

The study involves sending a questionnaire to ILG officers who are directly responsible for reporting and administering LAKIP. The study will reveal the dynamic process of adopting and implementing LAKIP by local governments. The positive or negative effects of the use of LAKIP on learning will be investigated to expose the distinctive potential of LAKIP for ILGs.

How Much Time Will the Study Take?

The participant is asked to complete a questionnaire about the adoption and use of LAKIP in Indonesian local government. The questionnaire will take approximately 30 minutes to complete.

Confidentiality

All information will be treated with confidentiality. All information will remain secured. Only Rony Sitorus, Robyn Pilcher and Brian Perrin will have access to the information for the purposes of the research project. No participant will be personally identifiable in any published material.

Participation

Participation in completing the questionnaire is completely voluntary. Participants are at liberty to withdraw at any time without prejudice or negative consequences.

If participants wish to make a complaint on ethical grounds the details of the Human Research Ethics Committee is provided in the box below.

This study has been approved under Curtin University's process for lower-risk Studies (Approval Number xxxx). This process complies with the National Statement on Ethical Conduct in Human Research (Chapter 5.1.7 and Chapters 5.1.18-5.1.21).
For further information on this study contact the researchers named above or the Curtin University Human Research Ethics Committee. c/- Office of Research and Development, Curtin University, GPO Box U1987, Perth 6845 or by telephoning 9266 9223 or by emailing hrec@curtin.edu.au.

Appendix 5: Interview transcript with a respondent from ILG

INTERVIEW INSTRUMENT AND LIST OF QUESTIONS	
Interview number/code	: L6
Date/time	: 29/03/2016
Department/unit	: Organisation Administrative Department

B. LAKIP Overview and Factors Adopting SAKIP (Estimate time: 10 mins)

1. There are several performance reports issued by your office, such as monthly and quarterly activity reports, LKPJ, LPPD, LAKIP, financial reports and special fund report. Which report is mostly used by the Mayor/Regent/Governor and other top level officials for the coordination meetings? Which report is the least used? Why?

Answer:

Most of the time they used monthly progress report. The report contains % activities done and % money spent. In coordination meeting, the focus of the meeting generally on making sure the current year budgeted programs will be achieved. Sometimes we discussed indicators.

If there is urgent matter that needs to be finished quickly, we sometimes have additional meeting every 3 months that focus to accelerate the completion of the matter.

In general the leaders do not much use information from SAKIP because it only covers KPI. They prefer to use the financial information system because it has all financial transaction information for all activities and their progress. For example, information regarding the targeted revenue and its progress is always discussed in the monthly meeting. Other important information is the progress of transfer fund received from the central govt and the procurement.

1

2. What aspects of the performance reports such as LAKIP that top ILG officials are mostly interested in?

Answer:

Most of the time, they focus on the physical and monetary progress of the current year budget items.

We do not really focus on the performance and the achievement of KPI except during performance audit conducted by BPKP. BPKP also reviews our SAKIP report i.e. LAKIP once a year. The audit unit from the province government also conducts a review on SAKIP once a year. When the result of these audits are issued, they will be included in our monthly meeting

Opinion:

Yes. I think SAKIP should be the main source of information because it shows the output and outcome of a program, besides money spent and activities done. If the leaders only use progress reports, they only know things from the budget perspective, but not the outcome. So they cannot see the big picture between planning and executing. In technical divisions, the big picture is more obvious. But in administrative and managerial divisions, it is not. For example, we have series of meetings to set up policy and coordinate policy execution. In those activities, it is not obvious the outcome of such activities. Since many of divisions fail to see the big picture, we repeated such activities without knowing what the outcome is. Last year we had meetings to set up our policies. This year we have the same meeting. Since it is not clear why we have such meetings, the leaders tend to be reactive in responding and handling an issue.

3. What is the central agencies' main focus when they review ILG's performance reports?
   Answer:

2

They look at the budget, execution, and result. They do not look the budget process in detail. When the MSAEBR or BPKP conduct the review, they did few samplings. Not much. Because our grade is B, the evaluation has reached to how we implement SAKIP. That is the typical of assessment for ILGs with grade B and above. If the grade still C or D, the MSAEBR focus is still on basic things such as the completeness of documents from 5 years planning, annual planning, and actual reports.

For us, MSAEBR compare the target and actual and assess the KPI used. So it is more detail reviews. So the MSAEBR or BPKP clustered the evaluation. To get CC, means documents are available and complete. At least that what most ILGs aim.

4. What is the main factor that drives ILGs to use SAKIP? Is there any formal/informal incentive or punishment from any central agency if the ILG fails to submit SAKIP? Is the yearly ranking issued by the MSAEBR and MOHA significant enough as an incentive for ILGs? Do you think the Audit Office or the Corruption Eradication Commission use SAKIP as one of their resources in overseeing ILGs' activities? If yes/no, why?

Answer:

There is no direct consequence if we do not use SAKIP or submit LAKIP. The only thing that is at stake is the pride of the leader. We follow it because there are regulations that regulate it. If we do not follow the regulation, they can blame us. A consequence is still just an idea in the MSAEBR.

There are other agencies that also deal with accountability in public sector such as BPK or KPK. But they do not look at our SAKIP as their source of information.

5. From your experience, do managers or staff from technical division (e.g. Road and Building divisions) know that ILGs have SAKIP and prepare LAKIP to the central government? If yes, how well they know about it? Do they routinely provide data required to prepare LAKIP?

3

Answer:

Yes, they do and it is a routine activity. Each year in January, there is a letter from the Regent or one of the senior executive to all divisions to review all of their programs and assess their performance and prepare the division's LAKIP report. Later, the internal audit will conduct an internal review for all divisions' performance.

Therefore, most of them know about SAKIP and LAKIP. However, they are only well familiar with the reporting aspect, because that is the area that they focused on. The division that have fully understanding about SAKIP are internal audit division and the organisational division.

Opinion:

With SAKIP, ILG starts to move toward performance based management. It is still not strong. But they start to think the benefit of having output and outcome from an activity or program. So the trend is positive, even I have not seen the real impact yet.

C. LAKIP as the Source of Information (Estimate time: 15 mins)

6. What are the main source of information for the Mayor/Regent/Governor in identifying important issues and problem in the local society that need to be jointly tackled by two or more divisions? Where is LAKIP's position in this matter? How does the Mayor/Regent/Governor regularly monitor the PI's on SAKIP? Does he/she monitor general or specific issues? How often and close the Mayor oversees the ILGs PI's achievement in SAKIP?

For important issues, the Regent uses information from the bureaucracy below him. From the head of division and also for the lower officers so that he will get a complete picture. The form of the communication is formal letters, reports (daily, monthly, quarterly reports).

4

7. How does SAKIP communicate the progress of the Mayor/Regent/Governor's key programs (i.e. campaign promises) to the internal ILG? What are the media used? (report, email, newsletter or magazine).

The Regent incorporates his vision, mission and other campaign programs into KPI in SAKIP. Therefore, the campaign's promise and progress can be used to monitor the achievement of the campaign promises. There is no special media. Just a normal progress report of the key programs and the leader discuss it on the meeting.

Opinion:

Until now, SAKIP and the performance report (LAKIP) never shows failed programs. At most, they show problems or delays in the progress. Therefore, we can explain the reasons behind it. It is also good for top leaders to find out what really happening in the field.

8. Is LAKIP part of the problem solving mechanism in ILGs? How does it work and how often is it used for the purpose?

Answer:

SAKIP is used to focus on programs related to the achievement of the Regent's campaign promises.

When it comes for new idea to solve the problem, we are mainly focusing on our predetermined tasks and roles. New ideas are very much dependant on the person who has them. If they have close relationship with the power, the idea can become a program and a budget for a new program can be drafted. Otherwise, it will not be accommodated.

9. Are the performance indicators and performance information in SAKIP used as the basis to promote or demote ILGs staff and senior officers?

Answer:

5

No is not. Because our leader is from political party, the promotion here is also politic related. You have to be closed to him. Is not based on the performance. If you want to be diligent, go ahead. If you just want to sit back, relax and read newspaper; you can do that too. As long as you produce your output, everything is safe. There is no consequences if the output is not useful. Most of the activities here is budgeted by using incremental method (10% increase from last year).

10. Between LAKIP and LPPD, which one is more often used as the basis for decision making? Why?

Answer:

There is no difference. Both are not the main part in the decision making process. In my opinion, the two reports need to be combined because they talk about performance.

D. SAKIP as the Source of Information (Estimate time: 3 mins)

11. Is there regular forum for internal ILG where staff can discuss the departments or ILGs general achievement? If YES, how often does it happen in a year and who can attend it? What is the media used as the main material for the meeting? What are the topic of the meeting? If there is NO regular forum, why? Is there any alternative?

Answer:

No. We focus on the current routines in our own department.

E. SAKIP as the Tool to Distribute Information (Estimate time: 4 mins)

12. Does the ILGs offer opportunities to diverse department to learn from each other (visits to other parts of the organization, internal training programmes, etc.) so as to make individuals aware of other people or departments' duties and how they use LAKIP?

Answer:

6

In general, we do not have that kind of opportunities here. When it comes to SAKIP matters, I usually take the initiative to approach the departments to find out whether they have any difficulty to measure and report their performance. My department (the organisation administrative department/OAD) provide training for preparing the LAKIP report. It is open for staff from technical divisions.

13. Does ILGs have internal rotation programs policy to facilitate the movement of employees from one department or function to another? How about the staff from your department. Are they also regularly transferred to other department? Once transferred, are they also given LAKIP related tasks?

    Answer:

    Not really. Generally, the movement of employees is limited within one sector. For example, employees from administrative sectors are generally rotate within that sector. They will not transfer to the technical sectors.

F. SAKIP and Organisational Memory in ILGs (Estimate time: 6 mins)

14. Does your ILGs have formal mechanisms that allow more experienced staff to share their knowledge to the new or less experienced ones?

    Answer:

    Nope. The leader is not familiar with such things. So it is still dificult to do that or have some audiences to join such thing.

15. Do you use the old LAKIP reports as references when preparing for the current year one? If Yes, why? (Possible answer: because the current year programs are similar with last year ones)

    Answer:

7

Yes, to compare current activities with previous year ones. Especially when the Regent's term is about to end, we focus to expose such matters.

16. Did the technical department find difficulty in finding last year LAKIP report? How do they keep the LAKIP reports?

Answer:

Before, yes. We had difficulties because the data is attached to the person. But now, it has been better. All data is entered into the system.

They also can always ask the information about the information the inspectorate or organisation divisions.

8