

**A CASE STUDY OF GOVERNMENTAL ACCOUNTING
AND BUDGETING REFORM
AT LOCAL AUTHORITY IN INDONESIA:
AN INSTITUTIONALIST PERSPECTIVE**

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**UNIVERSITI SAINS MALAYSIA
2009**

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By

ALI DJAMHURI

**Thesis submitted in fulfillment of the requirements
For the degree of Doctor Philosophy at the School of Management
Universiti Sains Malaysia**

**SEPTEMBER
2009**

ACKNOWLEDGEMENTS

Bismillahirrahmaanirrahiem

Alhamdulillah! It is only by the grace of *Allah Subhanallaahu Wata'ala* who has given me the strength and courage to complete this thesis. Without His assistance, nothing is possible including the completion of my thesis. My endeavour to complete this thesis is indeed a long journey. I would not have been possible without the assistance from *Allah* and supports from the following persons and parties who have been there whenever I have been stuck and needed to keep my mind focused.

First and foremost, I would like to express my profound gratitude to my supervisors: Dr. Siti Nabiha Abdul Khalid and Associate Professor Dr. Yuserrie Zainuddin for their guidance, support, patience, preciseness, encouragement and wisdom, which I personally received throughout the whole process of this thesis. Their sincerity always helped me back on track when my attempt to cope with the academic problems of my study were complex.

Grateful acknowledgment is also extended to Associate Professor Dr. Zainal Ariffin Ahmad and Dr. Amirulshah who have not only given valuable advices and insightful suggestions, but also constructive critiques and assessments along the process of my thesis completion. Their suggestions have been valuable lessons not only for the mater of this thesis, but – *insya Allah* - also for my whole scholarship.

My sincere thanks is also to the Dean of the Management School Associate Professor Dato Dr. Ishak Ismail, the Deputy Dean Dr. Zamri Ahmad, as well as Professor Dato Dr. Daing Nasir Ibrahim, Professor Dr. Hasnah Haron and other admirable persons in the school whose good judgment inspired me to finish my

study. My deep appreciation is also given to Kak Rosnah and Kak Aton at the administrative section of the school.

My special and deep gratefulness is addressed to my beloved wife, Wildiana Zuhrina, and to my three utmost lovely children, Khusnaya Adiba, Jeihan Linan Jinan, and Mazzay Majdi Makarim who have been my firm towers of strength during my study for doctorate program in USM. Their dependability and mutually understanding in keeping family life normal will indeed forever in my deep appreciation. Their patience gave me the strength and eagerness to stay on course. My mother in law, Hj. Ma'lah and My Father in law, Allahu Yarhamhu H. Munawar, and all my relatives such as Mas Slamet, Mas Abdul Munif, Kak Maryam, Kak Nuronah, Kak Nuriyah, dik Eda, dik Wahono, Syaiful, Farchan, Isom, and others are also deserving of my deep gratefulness. My long absence in front of them might much regretted.

Besides, I would like to express my deep appreciation and gratefulness to my institution, the Accounting Department of the Faculty of Economics, Brawijaya University where there are some highly regarded persons that have given special support to the completion of my thesis. First, Professor Dr. Harry Susanto, MSI, the then Dean of the Faculty of Economics, Brawijaya University, who made a fearless official decision to back my study at USM by a scholarship from the Faculty. My deep thank and appreciation is also to Professor Dr. Ir. Bambang Guritno, MSc. the then Rector of the Brawijaya University who gave me permission to do my study at USM. There is also Professor Dr. Bambang Subroto, MM, Ak. whom my sincere grateful is also addressed. His commitment to continue providing scholarship for me enabled my study completed. I am also deeply indebted to Professor Dr. Iwan Triyuwono, MEc, Ak; Professor Dr. Made Sudarma, MSI, Ak; Dr. Unti Ludigdo,

MSI, Ak; Dr. M. Achsin, MM, Ak; Dr. Eko Ganis Sukoharsono; Dr. Gugus Irianto, MSA, Ak; Drs. Nurkholis, MBus, AK; Drs. Didied Purnawan Affandi, MBA, Ak; Drs. Abdul Ghofar, MBA, Ak; Dr. Rosidi, MSI, Ak; Drs. Jusuf Wibisana, MSc; Ak, Drs. Bogat Agus Riyono, MSA, Ak; and all my colleagues both at the Department of Accounting and the Faculty of Economics, Brawijaya University, though they have not been mentioned here, they have given me supports in various aspects.

The completion my study would also have been impossible without generous supports from following persons and parties. Dr. Supomo Prodjoharjono, Ak (Pak Pompe) from Ministry of Home Affairs (MoHA); Professor Dr. Mardiasmo, MBA, Ak; Dr. Hekinus Manao, Ak from Ministry of Finance (MoF); Drs. Sukoyo and Dwi Setiawan Susanto, SE, Maksi, Ak from Supreme Audit Institute (SAI) who have provided me not only with access to relevant information in the Indonesian central government, but also personally provided me with specific time to interview face to face and through internet. Dr. Luqman Hakim, MA is also among the persons who personally have right to receive my thank and appreciation. He assisted me so much during my write up process although he was in a hard situation. I am also deeply indebted to Professor Dr. Slamet Sugiri, MBA, Ak and Profesor Dr. Abdul Halim, MBA, Ak from Faculty of Economics and Business, Gadjahmada University, who have assisted me with suggestions and motivation.

Couples friend of mine, specifically who regularly attended Ph.D room of the School of Management, USM such as Dr. Buyung Sarita; Dr. Syefnedi; Dr. Azmi Hashim; Dr. Abdurrahman Abdurrohim; Raman Nordin; Fuad, SE, MSI; M. Pujiharto, SE, AK; Noval Adib, SE, MSI, Ak; Imam Subekti, SE, MSI, Ak; Ir. Iwan Vanani; DR. Nugroho; Drs. Zainul Bahri, MM; Drs. Hasan Basri, MCom, Ak; Dr. Alizar; Drs. Aziz Arisudi, MSI; Ir. Ferdinan Murni; Ir. Dedy; Drs. Sunaryo, MSI;

Daud, Chang, Chutima and other friends who, though not mentioned individually, supported me sincerely during my long stay at Ph.D room of the school of Management USM. Their fruitful discussions, humor, and true friendship have made my stay in the School of Management, USM ”*menyenangkan*”.

The following persons are also important and to be mentioned here. First, I would like to thank to Dr. Bambang Hartadi, MSI, Ak; and Mas Priyo from Yogyakarta University of Technology; Dr. Sudarno, MSI, Ak; Dr. Edy Jusuf; Prof. Dr. Imam Ghozali, MCom, Hons, Ak; Prof. Dr. Arifin Sabeni, MCom, Ak; and also Dwi Cahyo Utomo, SE, MA, Ak from Diponegoro University Semarang. They gave me ample supports to have the endurance to finish my study.

My gratitude and sincere thank is also for Sukria, my secretary at Accounting and Business Development Center (ABDC), the Faculty of Economic, Brawijaya University, as well as Mas Didik, Arif, Madhi, Diyan, Vindi, Mirna, Frinta, Muchid, and others who helped me with various secretarial and clerical support during my thesis field work and write up. Their sincere, hard working, truthfulness, and accommodating manner of Sukria and other staff at ABDC enabled me to visit Ratan Ombo Regency (ROR), my thesis case organization, nearly every two week throughout the last five years. My access to ROR is also due to the kindness of the then Head of Finance Division of ROR and all the staff. I feel as it is not possible to mention all of them here individually not only due to their number, but also due to my commitment to keep them in their pseudo names. However, their supports cannot be denied.

Mbak Sasi, Pak Idris, Muchdhar, Neni, Pak Bambang Hariyadi, Tatang, Kiki, and Fathullah are also persons whom I want to give my thank and appreciation. They have arranged my schedules at DBSD Accounting Firm that enabled me to

handle my professional works while I was finishing my research. Without them, I would have been in a difficult situation.

Las but not least, this thesis is expressly dedicated to the memory of my mother, Allahu Yarhaamha Hj. Khodijah and my father, Allahu Yarhamhu H. Hasan Bisri. I believe they would be the happiest parent to know that I have been able to manage my study and complete my Ph.D. May Allah provide them with a place for the righteous in heaven. Without the assistance from Allah and their sincere guidance, it would be impossible to gain this achievement. However, I am in deep sadness as I could not show this achievement when they were still altogether with me.

Penang, September 2009

Ali Djamhuri

SED-0205

TABLE OF CONTENTS

	Page
ACKNOWLEDGEMENTS	ii
TABLE OF CONTENTS	vii
LIST OF TABLES	xi
LIST OF FIGURES	xii
LIST OF APPENDICES	xiii
LIST OF ABBREVIATIONS	xiv
ABSTRAK	xxiv
ABSTRACT	xxvi
CHAPTER 1 : INTRODUCTION	1
1.0. Background of the Study	1
1.0.1. New Public Management in General	5
1.0.2. NPM implementation in Indonesia	7
1.0.3. Organizational Perspectives of Accounting Reform	12
1.1. Research Objective and Questions	21
1.2. The Outline of the Thesis	23
CHAPTER 2 : NEW PUBLIC MANAGEMENT AND ACCOUNTING REFORM	27
2.0. Introduction	27
2.1. Factors Behind the Development of NPM	27
2.2. Definition and Characteristics of NPM and Its Implications toward Public Administration	29
2.2.1. Models of New Public Management	34
2.2.2 . Theoretical Basis of NPM	36
2.3. Accounting Reform Within the context of NPM	41
2.4. Lessons from other Accrual Accounting System Implementation	45
2.5. Indonesian Local Government: Its Structure, Development and Legal Environment	50
2.5.1. Structure of the Indonesian Government	51
2.5.2. Indonesian Legal Structure	53

2.5.3.	The Legal Development of Indonesian Local Government	55
2.6.	Indonesian Local Government Accounting Reform in the Context of NPM	64
2.7.	Summary	67
CHAPTER 3 : THE NEW INSTITUTIONAL SOCIOLOGY (NIS) PERSPECTIVE		69
3.0.	Introduction	69
3.1.	Basic Properties of Institutionalism	69
3.2.	Institution and Institutionalization	71
3.3.	The Old and the New Institutionalism	75
3.4.	Institutionalism and Economics	79
3.5.	Accounting Reform in the New Institutional Sociology Perspective	81
3.6.	Arguments for Using New Institutional Sociology	88
3.7.	Summary	92
CHAPTER 4 : METHODOLOGY		94
4.0.	Introduction	94
4.1.	Case Site Selection	95
4.2.	Methodological Ramifications of Social Research	96
4.3.	Qualitative Research Tradition in Organization Studies	100
4.4.	Case Study as the Strategy of Research	104
4.5.	Research Design	105
	4.5.1. Reflexivity	106
	4.5.2. Triangulation of the Evidences	112
4.6.	Analysis of the Case	114
4.7.	Summary	119

CHAPTER 5 : CASE FINDINGS – CENTRAL GOVERNMENT	
LEVEL	121
5.0. Introduction	121
5.1. Historical Background of Local Government Accounting Reform in Indonesia	122
5.2. Political Contest around the Local Government Accounting Reform	136
5.3. Focal Issues in the Institutionalization of Indonesia Government Accounting Reform – the Central Government Level	143
5.4. The Local Government Accounting Reform and the Roles of Other Central Government Agencies	150
5.5 Summary	152
CHAPTER 6 : CASE FINDINGS – LOCAL GOVERNMENT (ROR)	
LEVEL	155
6.0. Introduction	155
6.1. Historical Background of Local Government In Indonesia	156
6.2. Background Information of Ratan Ombo Regency (ROR)	157
6.2.1. History, Geographical, and Economic Situation of Ratan Ombo Regency	157
6.2.2. Organization of Ratan Ombo Regency	159
6.3. The Institutionalization Of New Budgeting System In Ratan Ombo Regency	162
6.4. The Institutionalization of New Accounting System in Ratan Ombo Regency	173
6. 5. The Restructuring of Ratan Ombo Regency	180
6.5.1. Functional Shift Within Ratan Ombo Regency	183
6.6. The Nature of Accounting Reform In ROR	185
6.7. Summary	196
CHAPTER 7 : THEORETICAL ANALYSIS	199
7.0. Introduction	199
7.1. The Rationale of Accounting Reform	201
7.2. Institutionalization of PBB and Accrual Accounting and Organizational Change in ROR	211

7.3.	Summary	215
CHAPTER 8 : RESEARCH CONTRIBUTIONS, LIMITATIONS, RECOMMENDATIONS, AND CONCLUSION		219
8.0.	Introduction	219
8.1.	Recapitulation	219
8.2.	Research Contributions	221
	8.2.1. Theoretical Contributions	221
	8.2.2. Practical Contribution	224
8.3.	Limitation of the Study	226
8.4	Policy and Practical Recommendation	227
8.5	Conclusion	229
REFERENCES		230
APPENDICES		
Appendix A .1 :	Ratan Ombo Regency - Summary of Budget 2002	270
Appendix A .2 :	Ratan Ombo Regency - Cash Flow Statement for the Year Ended 31 December 2007	272
Appendix A .3 :	Ratan Ombo Regency - Balance Sheet as of 31 December 2006 and 2007	275
Appendix A .4 :	Ratan Ombo Regency - Summary of Budget 2008	276
Appendix B :	Contrasting Properties of Quantitative and Qualitative Research Method	278
Appendix C:	A Summary of Differences Among the Three Approaches to Research	279
Appendix D:	Data Collection Protocol	280

LIST OF TABLES

	Page
2.1 Perspectives of Public Administration	31
2.2 NPM characteristics proposed by Gruening (2001) and Van Gramberg and Teicher (2000)	33
2.3 A Comparative summary Between Public Choice Economics and Welfare State Economics	39
2.4 Doctrinal Elements of New Public Management	43
2.5 The Hierarchy of Legal Sources in Indonesia.	55
2.6 Official Authorities of Indonesian Local Governments	62
3.1 The Old and the New Institutionalism	71
3.2 The Core Elements of Institutions	72
3.3 A Concise Summary of Institutionalism in Economics and Sociology	82
4.1 Sources and Types of Relevant Documentary Data	109
4.2 Data Collection Methods, the Relevant Research Subjects (Informants), and the Frequency of Data Collection Method Accomplishment	113
5.1 Changes Carried by GR 105 / 2000 and by Kepmendagri No. 29/2002	130
5.2 Relevant Legal Sources of Indonesian Local Government Accounting Reform	147

LIST OF FIGURES

	Page
2.1 Indonesian Government Structure Based on Law No. 32/2004	52
2.2 The Timeline of Relevant Regulations with Indonesian Local Government Accounting Reform	66
3.1 The Institutional Curve	85
4.1 Four Paradigms for the analysis of social theory	102
4.2 Stage in Deriving Themes from Different Sources of Data	118
5.1 Observed Responsible Factors lead to ceremonialization of PBB and Accrual Accounting in ROR	123
5.2 The Development of Regulation Concerning Indonesian Local Government Budgeting and Accounting Reform and Its Data Driven Potential Themes	125
6.1 Organizational Structure of Ratan Ombo Regency Based on Law No.22/1999 and Government Regulation No. 84/2000	160
6.2 Stages and Documentary Synchronization in the Process of Local Government Budgeting Based on Law No. 17/2003, Law No. 25/2004, Law No. 32/2004 and Law No. 33/2004	170
6.3 Institutionalization Process of Local Government Accounting Reform in ROR	177

LIST OF APPENDICES

	Page
Appendix A.1 : Ratan Ombo Regency Summary Budget of 2002	229
Appendix A.2 : Ratan Ombo Regency Cash Flow Statement of 2007	231
Appendix A.3 : Ratan Ombo Regency Balance Sheet of 2007	234
Appendix A.4 : Ratan Ombo Regency Summary Budget of 2008	235
Appendix B : Characteristics of Quantitative, Mixed, and Qualitative Research	236
Appendix C: A summary of Differences Among the Three Approaches to Research	235
Appendix D: Data Collection Protocol	238

LIST OF ABBREVIATIONS

ABRI	<i>Angkatan Bersenjata Republik Indonesia</i> or Indonesian Armed Force
ADB	Asian Development Bank
AKIP	Indonesian acronym for <i>Akuntabilitas Kinerja Instansi Pemerintah</i> or Performance Accountability of the Governmental Agencies
APBD	<i>Anggaran Pendapatan dan Belanja Daerah</i> or Local Governmental Budget
APBN	<i>Anggaran Pendapatan dan Belanja Negara</i> or National Budget
<i>APEKSI</i>	Asosiasi <i>Pemerintah Kota</i> Seluruh Indonesia (Indonesian Municipal Association)
APKASI	Asosiasi <i>Pemerintah Kabupaten</i> Seluruh Indonesia (Indonesian Rgency Assosiation)
APSI	<i>Asosiasi Provinsi Seluruh Indonesia</i> (Indonesian Province Association)
AUSAID	Australian Agency for International Development
BAGIAN	Indonesian term for supporting service unit. That is local governmental units whose main functions are to support other local government units technically and managerially in the field of secretarial, legal, employment, financial and facilities. In this thesis, BAGIAN is also indicated for Division.
BAPPEDA	Is an Indonesian acronym for <i>Badan Perencanaan Pembangunan Daerah</i> or Local Development Planning Agency
BAPPENAS	Is an Indonesian acronym for <i>Badan Perencanaan Pembangunan Nasional</i> or National Development Planning Agency. The agency is always chaired by a non departmental (state) minister, the State Minister of Development Planning (<i>SMDP</i>).
<i>Berimbang</i>	In proportion, balanced. In the context of Indonesian governmental budgeting, the term is used in "balanced budgeting approach", an approach of budgeting where total revenue should be in equal to total expenditure. This approach of budgeting has been previously used in Indonesia, including what was mandated by <i>MAKUDA</i> .
<i>Bina Marga</i>	Section of the Department of Public Work. In Local government context, it is a section of the Public Work Local Government Functional Unit specializing on building and maintaining roads
BPD	<i>Bank Pembangunan Daerah</i> or Local Governmental Development Bank

BPKAD	<i>Badan Pengelola Keuangan dan Aset Daerah</i> or Local Government Agency (Board) for Managing Finance and Assets. <i>Ratan Oambo</i> Regency uses <i>Badan Pengelola Keuangan dan Kekayaan Daerah</i> abbreviated to BPKKD but both are actually the same thing. It is a fusion of whole functions of Finance Division, whole functions of Income Generating Unit and asset-related (limited) function of General and Asset Division.
BPKKD	See <i>BPKAD</i>
BPKP	<i>Badan Pemeriksa Keuangan dan Pembangunan</i> (Audit Agency for Finance and Dvelopment), the government internal audit unit.
BPKRI	<i>Badan Pengawas Keuangan Republik Indonesia</i> or Indonesian Supreme Audit Institution (ISAI), in this thesis ISAI is used interchangeably with <i>BPKRI</i> .
Bupati	Regent, the head of a regency. <i>Kabupaten</i> or regency is an autonomous territory that legally comprises of more than 4 <i>kecamatan</i>
Camat	Chief Administrative Government official of <i>kecamatan</i>
CIDA	Canadian International Development Agency.
Daerah	Region, The term is used to denote a subdivision of central government, or a territory. Specifically in Indonesian laws and regulations, Daerah denotes more to local government than to region which also means <i>wilayah</i>
DAK	<i>Dana Alokasi Khusus</i> or Specic Allocated Fund (SAF), a type of transfer to local government under certain condition met with the characteristics of certain local governments, for instance specific fund for reforestation
DASK	<i>Dokumen Anggaran Satuan Kerja</i> or Organizational Unit's Budget Document. It is used to document an approved budgeted activity. In the newest regulation, this type of document is known as DPA-SKPD (see in this list)
DAU	<i>Dana Alokasi Umum</i> or Generally Allocated Fund (GAF). GAF is a type of fund transferred from central government to any local government. The fund is designed to compensate the LG fiscal gap. Thus the higher the fiscal gap, the higher the GAS received by a local government.
DBHPSDA	<i>Dana Bagi Hasil Pajak dan Sumber Daya Alam</i> or Tax Revenue Appropriation and Natural Resource Fund (TRANRF) is transferred fund from central government to local government based on local government's capacity to earn national income tax as well as its capacity in earning from natural resource products, such as mineral, lumber and petroleum
Dekonsentrasi	Deconcentration, a state administration term to mean a governmental authority transfer from central government to a governor in his or her capacity as the representative of the central government

Desentralisasi	Decentralization is governmental authority transfer from central government to an autonomous local government where the authority becomes local government's authority
Depdagri	<i>Departemen Dalam Negeri</i> . Ministry of Home Affairs, in this thesis is abbreviated to be MoHA
Depkeu	<i>Departemen Keuangan</i> . Ministry of Finance, in this thesis is abbreviated to be MoF
Desa	Javanese word for a village or rural community, often used interchangeably with <i>kelurahan</i>

Dinas	Local Government Functional Unit, that is a local government unit whose main functions is to perform an authority in providing certain type of public service.
DIP	<i>Daftar Isian Proyek</i> . A List of Approved Project Activities
DPA-SKPD	<i>Dokumen Pelaksanaan Anggaran - Satuan Kerja Perangkat Daerah</i> or Local Government Organizational Unit's Budget Working Paper. This document is used to be the basis for performing of every budgeted activity. It may contain revenue or expenditure or both of them of the designated activity. So under performance based budgeting, LG budget is merely a collection of approved Local Government Organizational Unit's Budget prepared in this document.
DPR	<i>Dewan Perwakilan Rakyat</i> or Indonesian Parliament
DPRD	<i>Dewan Perwakilan Rakyat Daerah</i> or Local Parliament. <i>Anggota DPRD</i> . Local Parliament Member. The members of local parliament consist of local politicians representing national political parties in an administrative area such as regency or municipality
DUKDA	<i>Daftar usulan kegiatan Daerah</i> or Local Government list of activity proposal
DUPDA	<i>Daftar Usulan Proyek daerah</i> or Local Government List of Project Applications (proposals)
GAGAS	Generally Accepted Governmental Accounting Standards
GASC	Governmental Accounting Standards Committee, an independent and exclusive committee established in 2002 by Indonesian Government to set up and promulgate GAGAS. In Indonesian acronym, GASC is known as PSAP stands for <i>Panitia Standar Akuntansi Pemerintahan</i> .
GBHN	<i>Garis Besar Haluan Negara</i> or Broad Outlines of State Policy
GOLKAR	<i>Golongan Karya</i> (functional group). It is the name of a political party in contemporary Indonesian era. When it was established in October 1964, it was known as <i>SEKBERGOLKAR</i> (<i>sekretariat bersama golongan karya</i>) or joint secretariat of functional group, a federated community organization consisted of 20 NGOs specifically instituted to prevent the influence of communistic ideology brought mainly by Indonesian Communist Party (<i>PKI</i>).

IAA	Indonesian Accountants Association, the only professional accountant organization in Indonesia. It was established in 1955, a year after Law concerning the usage of accountant title was legislated. Internal of IAA there are organizational chapters, known as compartments, such as public accountant, management accountant, academic accountant, and lately government accountant.
IBRD	International Bank for Reconstruction and Development or also known as the World Bank
ICW	<i>Indonesische Comptabiliteit Wet</i> . The Dutch colonial law for commerce and book keeping.
IMF	International Monetary Fund
ILPPD	<i>Informasi Laporan Penyelenggaraan Pemerintahan Daerah</i> or Local Government Performance Report. Information concerning performance of local government that delivered to public through local mass media (electronic or printed).
JICA	Japan International Cooperation Agency
Juknis	Guidelines for <i>petunjuk teknis</i> or technical guideline. It is a regulation derived from a government regulation specifically issued to ease technically the implementation of a certain type of procedure mandated by the government regulation.
Kabupaten	Regency. An administrative (government) authority below provincial government. In the hierarchy of Indonesian governmental structure, <i>kabupaten</i> is in parallel with kota or municipality, they comprise of couples of kecamatan.
Kantor	Office. In local governmental context, the term is used to mean an organizational unit in local government providing a specific type of public service such as Office of Electronic Data Services
Karesidenan	<i>Karesidenan</i> is a level of Indonesian governmental structure inherited from Dutch colonial era when the Dutch Government initially only structured its to government be governor general in Batavia and supported by couples of residences. In its development, along with accommodating the then existing Javanese Kingdom rooted local governments in form of <i>kadipaten (kabupaten)</i> and <i>kawedanan</i> , the Dutch includes <i>kabupaten</i> under <i>Karesidenan</i> and <i>Kawedanan</i> under <i>Kabupaten</i> . In the early of modern Indonesia, the authority of both <i>karesidenan</i> and <i>kawedanan</i> have been lessened to be merely coordination and ceremonial
Kawedanan	Sub-district. An administrative (government) authority below regency or <i>kabupaten</i> coordinating couples of <i>kecamatan</i> . In Dutch Colonial era up to 1970s <i>kawedanan</i> was so powerful than <i>kecamatan</i> which was only the assistant of <i>kawedanan</i> . Started in 1980s the political and administrative power of <i>wedono</i> , the chief officer of <i>kawedanan</i> , was so insignificant. Now, they are even ceased to exist further.
Kecamatan	<i>Kecamatan</i> is a territorial jurisdiction chaired by a <i>Camat</i> (district assistant). It is normally a part of regency or municipality. <i>Kecamatan</i> consists of couples of <i>Desa</i> (villages) or <i>kelurahan</i> , the lowest hierarchy of governmental jurisdiction in Indonesia.

Kepala Daerah	Regional or Local Government Head. He or she can be Mayor, Regent, or Governor. The term is never used to mean President, <i>Camat</i> or <i>kepala desa (lurah)</i> .
Kepmen	Indonesian acronym for <i>Keputusan Menteri</i> or Minister's Decision, for example Minister of Home Affairs' decision No. 29/2002 concerning the guidance for local government budget preparation, financial management, reporting and responsibility. <i>Kepmen</i> is normally used to elaborate technically one or more regulations mentioned in a higher rank legal source, such as <i>Peraturan Pernerintah</i> or Governmental Regulation In the domain of ministry of finance, <i>kepmen</i> is almost never used instead of <i>KMK (Keputusan Menteri Keuangan)</i> or Minister of Finance's Decision
KKN	<i>Korupsi, Kolusi dan Nepotisme</i> , an Indonesian acronym to denote corruption, collusion and nepotism (CCN).
Kota	City or a municipality. <i>Kota</i> is chaired by wali kota or a mayor. Compared to <i>kabupaten</i> , kota is smaller in term of its territory or number of sub-municipality, but it is in parallel with kabupaten in term of hierarchy in governmental jurisdiction. Both of <i>kabupaten</i> and <i>kota</i> are autonomous local governments and comprise of a certain number of <i>kecamatan</i> .
KUAAPBD	Acronym for <i>Kebijakan Umum dan Arah Anggaran Pendapatan dan Belanja daerah</i> (the general policy and direction of local government budget). The policy and direction are packaged in a planning document with a similar name.
LAKIP	Indonesian acronym for <i>Laporan Akuntabilitas Kinerja instansi Pemerintah</i> or the Report of Performance Accountability of the Governmental Agencies
LKPJ	<i>Laporan Keterangan Pertanggungjawaban</i> or Statement of Deliberation on Responsibility. The statement that contains detailed information about governmental performance along the designated period should be submitted by Chief of local government to local parliament. This type of statement is also prepared by the chief of local government at every the end of his or her office.
LPPD	<i>Laporan Penyelenggaraan Pemerintahan Daerah</i> or Local Government Performance Report. This report contains information about governmental performance along a designated period and should be prepared by the chief of local government to be submitted to central governmental.
LRAPBD	<i>Laporan Realisasi Anggaran Pendapatan dan Belanja Daerah</i> or Statement of Local Government Budget Realization. To a certain extent, specifically in private sector context, it is equal to Profit and Loss Statement.
Medebewind	Dutch terminology absorbed by Indonesian language to denote the power of local government to perform duties delegated to it by central government or by a higher level of local government, see <i>Tugas Pembantuan</i> .

MAKUDA	Is Indonesian acronym for <i>Manual Administrasi Keuangan Daerah</i> or Manual for Local Government Financial Administration. The manual was developed in 1980 by the Ministry of Home Affairs in relying to Law No..5 of 1974 as well as Government Regulation No. 5 and No. 6 of 1976. It was implemented since 1983. According to this manual, local government budget is prepared on the basis of incremental and line item approach; and the accounting system applied is cash basis as well as single entry. (For more detailed, see Prodjoharjono, 2003)
MCBA	Stands for Modified Cash Basis Accounting. Current model of Indonesian local government accounting system is following MCBA. It is an accrual basis at the end of financial statement preparation, but utilizing cash basis to record financial transaction along the accounting period. The accrual results are obtained through performing adjustment journals
MoF	Ministry of Finance or in Indonesian terminology is <i>Departemen Keuangan</i>
MoHA	Ministry of Home Affairs or in Indonesian terminology is <i>Departemen Dalam Negeri</i>
MPR	<i>Majlis Permusyawaratan Rakyat</i> or People Consultative Assembly, the highest institution in the Indonesian state hierarchy
NCE	Neo Classical Economics
NIE	New Institutional Economics
NIS	New Institutional Sociology
NPM	New Public Management
OECD	Organization of Economic Cooperation and Development
OIE	Old Institutional Economics
Otonomi	Autonomous, self governed
Pajak	Tax. This term is used normally to denote national tax, that is tax levied by central government.
Pajak Daerah	Local or Regional Tax. This term is specifically used to denote local taxes levied by local government or authority. Instead of local tax, each local government also has legal right to earn from <i>retribusi</i> (rate) levied from any consumer of a certain line of public services.
PAKTO 83	Indonesian acronym for <i>Paket Oktober 1983</i> , a package of banking policies set by Indonesian Central Bank and Ministry of Finance of the Republic of Indonesia to deregulate Indonesian banking industry
PAKTO 88	Indonesian acronym for <i>Paket Oktober 1988</i> , a package of banking policies set by Indonesian Central Bank and Ministry of Finance of the Republic of Indonesia to deregulate Indonesian banking industry
Panggar	<i>Panggar</i> is a typical acronym in the context of local government to denote to <i>Panitia Anggaran</i> , a special committee responsible to coordinate budgeting process within local parliament. In the executive domain, the equal one is known as <i>Tim Anggaran Eksekutif</i> (executive budgeting team).

PBBS	Performance Based Budgeting System, a budgeting system that emphasizes not only to its relationship with organizational vision, mission and objectives, but also on the importance of budgeted activities' performance identified in input, output, outcome, impact and benefit. The system utilizes performance indicators for input, process, output, outcome, impact, and benefit inherently in its preparation and reporting documents. In this thesis, performance based budgeting system (PBBS) is interchangeably used with performance based budgeting (PBB).
Perda	Stands for <i>Peraturan Daerah</i> or Local Government Regulation (LGR). The regulation is enacted through local parliament decision. it is the highest rank of regulation in the jurisdiction of regency or a municipality. For simplicity, in this thesis, <i>perda</i> is presented by LGR followed by its corresponding no. and year after/sign
Permendagri	<i>Peraturan Menteri Dalam Negeri</i> or Minister of Home Affairs' (MoHA) Regulation
PP	Stands for <i>Peraturan Pemerintah</i> or government regulation (GR). The regulation is a more elaborate and technical. It is derived from Law and intended to provide technical guidance in order to ease the implementation of the law. In this thesis all <i>peraturan Pemerintah</i> will be presented by GR followed by its corresponding no. and year after / sign.
PPAS	<i>Prioritas dan Plafon Anggaran Sementara</i> or Priority and Interim Budget Ceiling. This document is planning document used to limit budget user in term of area that can be proposed as program as well as budget ceiling for those proposed programs. When <i>PPAS</i> is approved, it becomes <i>PPA</i> or Priority and Budget Ceiling. <i>PPA</i> is the source from where <i>RKA-SKPD</i> is prepared
Propeda	<i>Program Pembangunan Daerah</i> (Local Governmental Development Programs). A planning document elaborating
Raperda	<i>Rancangan Peraturan Daerah</i> . Draft of Local Government Regulation. As local government budget should be legalized through a local government regulation, there is <i>Raperda</i> specifically devoted to facilitate it, that is <i>Raperda APBD</i> or Draft of Local Government Regulation for Local Government Budget
Renja	<i>Rencana Kerja</i> (Work Plan). Under current regulations, both local government and each organizational unit should have its own <i>Renja</i> . See <i>RKP</i> and <i>RKPD</i> in this glossary
Renstrada	<i>Rencana Strategis Daerah</i> or local government strategic plan. It is an undetachable part of strategic planning documents for a local government. Instead of <i>Renstrada</i> , there is also <i>Renstra SKPD</i>
Renstra SKPD	<i>Rencana Strategis Satuan Kerja Perangkat Daerah</i> (Organizational Unit Strategic Plan).
Repelita	<i>Rencana Pembangunan Lima Tahun</i> . Five-year Development Plan. From 1969/70 to the middle of 1990s, Suharto's administration had succeeded in carrying out <i>repelita</i> up to the fifth <i>repelita</i>

RKA-SKPD	<i>Rencana Kerja dan Anggaran - Satuan Kerja Perangkat Daerah</i> or Local Government Organizational Unit's Budget and Action Plan. This document is normally used to propose local government organizational unit's activities to be budgeted in LG's budget. When the proposed activity is accepted and legalized as a part of LG budget, then the document changes to be <i>DKA-SKPD</i>
RKP	<i>Rencana Kerja Pemerintah</i> or Government Action Plan. In the context of local government, this term its changed toward <i>RKPD</i> standing for <i>Rencana Kerja Pemerintah Daerah</i> or Local Government Action Plan. This plan is annual development plan prepared by local government.
ROR	<i>Ratan Ombo Regency</i> , a pseudo name for a regency in East Java where this thesis study is located
RPJM	<i>Rencana Pembangunan Jangka Menengah</i> or Midrange Development Plan. This term is used specifically for central national context. When it is applied for local government, the term is usually added by suffix D becomes <i>RPJMD</i> to denote that it is for the context of <i>Daerah</i> or local government. The time span of the plan is normally five years,
RPJP	<i>Rencana Pembangunan Jangka Panjang</i> or Longterm Development Plan. This term is used specifically for national context. When it is applied for local government, the term is usually added by suffix of D becomes <i>RPJPD</i> to denote that it is for the context of <i>Daerah</i> or local government. The time span of this document is normally 15 - 25 years. Both <i>RPJP</i> and <i>RPJM</i> were formerly known as <i>GBHN (Garis Besar Haluan Negara)</i> or Broad Outline of Sate Policies
RPP	<i>Rancangan Peraturan Pemerintah</i> . Draft of Government Regulation
SAIP	<i>Sistem Akuntansi Instansi Pemerintah</i> or Governmental Agency Accounting System. This term is used specifically to denote to a budgeting and accounting system for central governmental agency developed by MoF.
SAPD	<i>Sistem Akuntansi Pemerintah Daerah</i> or Local Government Accounting System. This term is used specifically to denote to a budgeting and accounting system for local government developed by MoF. Sometime it is also called as <i>SIMKD</i> stands for <i>Sistem Informasi Manajemen Keuangan Daerah</i> (Local Government Financial Management System). In this thesis it is used interchangeably.
Sekda	<i>Sekretaris Daerah</i> . Local Government Secretary. Provincial, Regency and Municipality; each has its own <i>sekda</i> . <i>Sekda</i> is different with <i>setda (sekretariat daerah)</i> , a term to indicate the office of <i>sekda</i> . Normally <i>setda</i> consists of some suboffices called <i>bagian</i> or divisional part, such as <i>bagian keuangan</i> (finance division), <i>bagian kepegawaian</i> (personnel division), <i>bagian hukum dan perundangan</i> (Legal and Regulation division), and <i>bagian umum dan perlengkapan</i> (General Administrative and Asset Management).

SDO	<i>Subsidi daerah Otonom</i> . Local Governmental Subsidy from Central Government particularly given to Provincial Government
SPD	<i>Surat Penyediaan Dana</i> or Letter for Fund Provision is document used to inform budget user that there is fund available to perform budgeted activities. This document is issued by the regent as the authority owner in local government financial management
SKPD	<i>Satuan Kerja Perangkat Daerah</i> or Local Government Organizational Unit. This term is used to denote into any local government organizational unit, so it includes functional unit, office, board, division, hospital, and even local government owned companies.
SPJ	<i>Surat Pertanggungjawaban</i> or Letter of Responsibility Discharge. This document is used to report financial aspect of the performance of a planned activity. <i>SPJ</i> should be prepared and submitted by responsible unit of local government performing the activity by attaching all relevant documents both operationally and financially.
SPK	<i>Satuan Pemegang Kas</i> or Cash Custodian Unit, a unit established in accord to Kepmendagri No. 29/2002 to handle financial management of a local government organizational unit. By establishing this unit, all financial affairs of the LG organizational unit are carried out centrally by the custodian unit instead of entrenched to each project as previously practiced. Normally this unit consists of five personnels whose members are book keeper, document preparer, payroll administrator, cashier, and the chairman called as cash custodian.
SPM	<i>Standar Pelayanan Minimum</i> or Minimum Service Requirement Standard. Minimum level of service quality that should be provided by any public service provider or by local government organizational unit. <i>SPM</i> is a complimentary tool in order to have performance based budgeting system is effectively and efficiently performed. In documentary context, the term of <i>SPM</i> is also used to designate to a document prepared by LG organizational unit to ask for cash from LG general treasurer.
SP2D	<i>Surat Perintah Pencairan Dana</i> . This document is prepared by Financial Division as the local government general treasurer to issue local government cash to finance a budgeted activity under responsibility of a local government organizational unit

TAP MPR	Stands for <i>Ketetapan Majelis Permusyawaratan Rakyat</i> or a Legal Statement of the People Consultative Assembly concerning state governance. The statement is acceptable as the second source of legal grounding after constitution from where laws are originated. The statement is distinguished from <i>Keputusan MPR</i> , which is the decision of the assembly that purely internal in purpose.
Tugas Pembantuan	Is an order of a higher government to its lower government to perform <i>a</i> specific task.
<i>UU</i>	<i>Undang-undang</i> . Law.

**KAJIAN KES PEMBAHARUAN PERAKAUNAN DAN BELANJAWAN
KERAJAAN DI KERAJAAN TEMPATAN INDONESIA :
SATU PERSPEKTIF INSTITUSIONALIS**

ABSTRAK

Kajian kes interpretif ini adalah mengenai pembaharuan perakaunan kerajaan tempatan di Jawa Timur, Indonesia, bernama samaran Ratan Ombo Regency (ROR). Sejak tahun 2001 kerajaan pusat Indonesia telah mengenakan belanjawan berasaskan prestasi (*PBB*) dan perakaunan berasaskan akaun bergu (*accrual accounting*) kepada kerajaan-kerajaan tempatan. New Institutional Sociology (NIS) seperti disarankan oleh DiMaggio & Powell (1991) dan pendekatan proses oleh Pettigrew (1997) digunakan oleh kajian ini untuk memahami pembaharuan tersebut dengan melihat bagaimana sistem belanjawan dan perakaunan yang baru diinstitutionalisasikan oleh ROR dengan ciri-ciri teknikal dan budaya sosialnya. Hasil diperolehi menunjukkan pendekatan pembaharuan yang cepat, intensif, dan meluas yang dijalankan dalam tempoh yang singkat hanya boleh menginstitutionalisasikan sistem yang baru secara '*upacara*', iaitu sistem baru yang terasing dari realiti budaya sosial ROR. Walaupun sistem yang baru telah mencabar institusi-institusi lama, tetapi kekurangan kuantiti dan kualiti staf perakaunan ROR, kekakuan budaya birokratik, serta kesan konsep Jawa '*pangreh praja*' dan '*pamong praja*', menyebabkan pembaharuan tersebut gagal menjadikan sistem baru sebagai institusi penting ROR. Institutionalisasi tersebut telah memberi "pengalaman yang berharga" bagi ROR iaitu apabila sebahagian ahli politiknya didapati bersalah mengikut undang-undang berhubungan dengan soalan belanjawan yang baru. Kekurangan penggunaan dan ketidak jelasan maklumat kewangan dalam membuat keputusan, kecuali maklumat wang tunai, dikeranakan posisi ketergantungan secara kewangan kerajaan tempatan kepada kerajaan pusat, telah mengasingkan sistem baru

di ROR. Sungguhpun, peningkatan gerakan anti rasuah dan audit ole pihak kerajaan, merupakan pendorong penting untuk mengetatkan hubungan antara sistem baru dengan nilai-nilai asasnya.

**A CASE STUDY OF GOVERNMENTAL ACCOUNTING AND BUDGETING
REFORM AT LOCAL AUTHORITY IN INDONESIA:
AN INSTITUTIONALIST PERSPECTIVE**

ABSTRACT

This interpretive case study is about accounting reform in a local government in East Java, Indonesia, whose pseudo name is *Ratan Ombo Regency* (ROR). Since 2001 Indonesian central government have introduced Performance based budgeting (PBB) and accrual double entry accounting to its local governments. New Institutional Sociology (NIS) as suggested, among others, by DiMaggio and Powell (1991), as well as the processual approach by Pettigrew (1997) are used to understand how the PBB and accrual accounting have been institutionalized in ROR with its technical and socio cultural characteristics. It is found that rapid, intensive, and extensive reform approach applied within a relatively short time period have only succeeded in institutionalizing the new systems ceremonially. The systems are loosely coupled from the existing ROR's socio cultural realities. Though the new systems have challenged existing institutions in ROR, however, due to insufficient quantity and quality of ROR's staff in accounting, rigidity of its bureaucratic culture, and the influence of Javanese concepts such as "*pangreh praja*" and "*pamong praja*", it failed to be embedded in the organization life of ROR. Such institutionalization has given ROR an "unforgettable" experience, specifically when their several politicians were legally guilty connecting with budget issues. Low level and unclear usage of financial statements in decision making particularly due to its high financially dependent to central government was another cause for decoupling the new systems in ROR. Nevertheless, Increased anti corruption moves and audit by the government, seemed to be significant factors in attaching the new systems with their underpinning values.

CHAPTER 1

INTRODUCTION

This chapter describes the background and the objectives of the study. The chapter begins with a brief discussion about new public management (hereafter NPM) as an international movement in public sector organizations in which contemporary accounting reform, i.e. the implementation of both performance based budgeting system (hereafter PBBS or simply PBB) and accrual and double entry local government accounting (hereafter accrual accounting), is a prominent agenda in achieving its objectives. Since the international proliferation of NPM closely relates to the phenomena of globalization and decentralization, this chapter also covers the historical setting of NPM and its association with both globalization and decentralization. The inclusion is important to give a clear understanding about the role of PBBS and accrual accounting systems in decentralization. Finally, this chapter discusses in detail the objectives and outline of the thesis.

1.0. Background of the Study

Within public sector literatures, NPM is also known as “managerialism”, “post bureaucratic”, “market based public administration”, “new public sector paradigm”, “accountingization”, “new paradigm”, “marketization of public sector”, “public sector reform”, and also “privatization (Hood, 1995). The development of NPM where accounting reform is its central agenda closely relates to the advancement of globalization (Cope, Leishman, & Starie, 1997; Common, 1998; Farazmand, 1999; Guillen, 2001; Munck, 2002; Beeson, 2003; and Klingner, 2004). Many authors argue that the progression of both globalization and NPM relate to the revival of neo liberal ideology (Farazmand, 1999; Larbi, 1999; and Guillen, 2001). In parallel with the neo liberalists’ ideation of “freedom”, “individualism”, “free enterprise”, and

“plural democracy” (Farazmand, 1999, p. 511), they believe that the role of the public sector should be minimal (Farazmand, 1999; Stiglitz, 2002; Fukuyama, 2003; and Fiss & Hirsch, 2005); NPM is a reasonable template to achieve that goal. Thus, globalization and NPM create a common logic by which the current reality of public sector management is generally fabricated.

In general, neo liberalists continuously try to revisit purer capitalistic economic model and more liberal politics (Dixon, Kouzmin, & Korac-Kakabadse, 1998; and Kouzmin, 2007). Thus, they idealize the market as single economic and social mechanism. In the public sector, they infuse their ideological doctrines through the public choice model of governance, where economics and positivistic methodological principles such as methodological individualism, objectivity, and moral neutrality are applied in the domain of non market decision making, i.e. politic and bureaucratic (Lane, 1995). Although the suitability of public choice and its claim of moral neutrality are still questionable beyond the western culture, as the mainstream ideological philosophy of the west, the public choice model has been promoted intensively by the IMF, World Bank, as well as USAID to be the only theoretical model of current public sector governance. Thus, to a large extent, NPM is indebted to public choice theory.

During the 1970s, Ronald Reagan in the USA and Margaret Thatcher in the UK who represented the “right wing” of neo liberalists, both contributed significantly in propelling the process of globalization. Through the Washington Consensus, globalization is used as a vehicle to liberalize the world for the interest of neo liberalists or the right wing conservatives (Azam, 2005). Common (1996), Stiglitz (2002), and also Babbs & Chorev (n.d.), consider that NPM is a “global new right project”. In this context, public sector accounting reform, of which one of its

main goals is to transform the public sector accounting model toward a more business-like model, was viewed as a reasonable agenda by which NPM, in particular, and globalization, in general, can easily achieve their essential goal - creating “minimal states” all over the world through the implementation of privatization, downsizing, decentralization, deregulation, output and result orientation, cost recovery, and quality oriented in serving citizen as customer (Siddiquee, 2006; and Ellwood & Newberry, 2007). According to Cope, Leishman & Starie (1997), neo liberalists strongly believe that the private sector and market system are the best places from which the public sector should seek valuable guides. Their well-known slogans include “private good, public bad”, “competition”, “decentralization”, and “fragmentation.

As a result of the Asian economic crisis in 1997, Indonesia has experienced a slumpy economy. Unfortunately, ten years after the crisis, when the economy of its neighbouring countries has recovered, Indonesia has been making tough working to free itself from the severity of the crisis. Although most of the driving factors of the crisis were identified as internal, some were also external such as globalization (Gill, 1998; Sangkoyo, 1999; Halim, 2000; Kristiansen & Trijono, 2005; and Kuncoro, 2006). Compared to South East Asian countries, the Indonesian crisis was not only more pervasive in its scope, but also more devastating in every respect. It resulted in a multidimensional crisis.

According to analysts, the root of the Indonesian multi dimensional crisis relates mostly with the then weak Indonesian public governance (Gill, 1998; Tabalujan, 2002; Beeson, 2003; Hadiz & Robison, 2005; and Davidsen, Juwono, & Timberan, 2006) such as a low level of transparency, a high level of corruption and a lack of “legal culture”. Based on that, post Soeharto Indonesian governments have

set an agenda to reform the Indonesian public sector, including its governmental accounting, to restore its economic condition. Literatures on NPM such as Borins (1998) and Cheung (2002) demonstrate that, in general, the basic reason behind most Asian countries embarkation on NPM programmes are the motivation to have their institutions more responsive to global market demand, to curb corruption as well as to improve the quality, efficiency and effectiveness of the governmental agency's services.

Unlike Singapore and Malaysia which reformed their public sector earlier and in a relatively more controllable situation (Beaglehole, 1976; Cheema & Hussein, 1978; Ahmad Sarji, 1995; Halligan, 1995; Borins, 1998; Tayib, Coombs, & Ameen, 1999; Ang, Davies, & Finlay, 2001; Siddiquee, 2006; Othman et al., 2007; and Saleh, 2007), Indonesian public sector reform underwent a difficult situation where there were not many options available to do it independently.

The severity of the crisis led Indonesia to demand for the assistance of the IMF. As a standardized procedure, Indonesia was forced by the IMF to implement a set of prerequisite conditionality, generally claimed by the IMF to succeed in recovering the economy. One established agenda was for public sector reform. This is why the Indonesian public sector reform programmes resemble the programmes of other IMF beneficiary countries. Many critical observers, among others Farazmand (1999), Larbi (1999), Mayer & Mormouras (2005), Nis (2006) and Best (2007) are wary that the IMF really do it for the benefit of beneficiary countries. Normally, the IMF presets a standardized agenda of reform and leaves its beneficiary countries in a position with only limited choices. Hadiz & Robison (2005) critically demonstrate how deep the IMF and World Bank have contrived the Indonesian attempts to

recover its economy in post crisis era. In their article entitled “Neo-liberal Reforms and Illiberal Consolidations: The Indonesian Paradox” (2005). They said:

“A second wave of market reform, more thoroughly influenced by neoclassical economics, followed the dramatic collapse of oil prices in 1982 and 1986. Technocrats were able to push through a series of reforms in trade, banking, finance and to eliminate many state monopolies as Indonesia’s state revenues and foreign earnings came under threat. But it was after the economic crisis of 1997–98 that neo-liberal reformers seized the policy levers in *the most decisive way* (italic added). With its economy and its currency in crisis, its corporate giants paralysed by debt and the Soeharto regime itself unravelling, the Indonesian government *was forced to agree to extensive IMF demands for reform* (italic added). These included more deregulation, dismantling the state owned sector, introducing institutional reforms in banking and public management and, significantly, diluting central state authority.” (Hadiz & Robison, (2005, p. 221)

Based on that, it is understandable that a combination of the difficult internal situation and unpalatable external pressures had been colouring the complexity of the Indonesian contemporary public sector reform, either at the central or local government level. Put in a broader perspective, for example within the ASEAN region, these causes might be the main reasons behind Indonesia’s minimum result in achieving good governance as well as the lack of improvement in the public service.

1.0.1. New Public Management in General

Given the fact that NPM has been popular since the 1990s as a relatively functional template for public sector improvement (Rosenbloom & Yaroni, 1992), and the fact that a large number of academics and professionals work in the area, it is quite surprising that its definition has not been generally conclusive (McCourt, 2002; and Siddiquee, 2006). Most literatures about NPM only mention the basic tenets or main characteristics. Among them are Rosenbloom & Yaroni (1992), Hood (1995), Behn (1998), Barzelay (2000), and also Gruening (2001). Therefore, NPM is essentially not a mono-interpretative, but rather a multi-interpretative term that flexibly covers any initiatives carried by the government of a country to transform its

public/governmental sector to be more market oriented. Since the scope of NPM is so broad, various disciplines and perspectives can be used to analyse or study NPM. However, as pointed out by Siddiquee (2006, p. 339), the essence of NPM is “the application of private sector values and management tools in the public sector and the delivery of public services through market mechanisms”.

According to Gruening (2001), the origin of NPM can be traced back to the premiership of Margaret Thatcher during the 1970s in Britain. During the the 90s, other international donors such as USAID, ODA, CIDA, AUSAID, GTZ and also ADB (Osborne & Gaebler, 1992; Broadbent & Laughlin, 1998; Larbi, 1999; Broadbent, Jacobs, & Laughlin, 2001; Borins, 2002; Caramanis, 2002; Dawson & Dargie, 2002; Farlie & Fitzgerald, 2002; Roukis, 2006; Watkins & Arrington, 2007; and Babb & Chorev, n.d) also promoted NPM, particularly by including it as a component of their conditionality. Yet, Australia, New Zealand, and Canada are among intensive NPM adopters whose implementation models had been referred to by other late adopters internationally (Aucoin, 1995; Cope et al., 1997; Borins, 1998; Ball, Dale, Eggers, & Sacco, 2000; Gendron, Cooper, & Townley, 2001; Anderson, Griffin, & Teicher, 2002; Carroll & Steane, 2002; Barton, 2003; Carlin, 2003; Annisette, 2004; and Barton, 2007).

Meanwhile, a combination of strong neo liberal spirit, conservatism, supremacy in economy, military, media, and accounting or consulting firms, as well as the UK and the US domination in global institutions such as the IMF, World Bank, and WTO, had proliferated NPM more extensively, specifically post the Washington consensus in 1989 when the IMF and World Bank were more powerful in dictating their beneficiaries through their “conditionality”. Given that the number of such donors’ beneficiaries increased significantly around 1990s, the NPM as a

model of public sector reform reached countries in Africa (Hope, 2001; McEwan, 2003; and Nze & Nikamnebe, 2003), Latin America (Barzelay, 2000), South and South East Asia (Ahmad Sarji, 1995; Cheung, 2002; McCourt, 2002; Turner, 2002; Hadiz & Robison, 2005; Tayler, 2005; Kristiansen & Santoso, 2006; and Othman et al., 2007), as well as Northern, Central and Eastern Europe (Bergevarn, Mellempvik, & Olson, 1995; Barlow & Röber, 1996; Monsen & Olson, 1996; Green-Pedersen, 2002; Luder, 2002; Schedler, 2002; Caperchione, 2003; Schedler, 2003; Frølich, 2005; and Reichard, 2006).

Conceptually, as mentioned by Hood (1995), NPM was initially an alternative of public administration paradigm (PAP). PAP was mostly applied in welfare states, and, - as mentioned - neo liberals viewed the welfare state model of governance as irresponsible, inefficient, unproductive, inflexible and ineffective (Behn, 1998). Originally, the emergence of NPM was to correct the PAP's shortcomings (Beeson, 2003). Indeed, it was not only the PAP that was reformed by the NPM but also the model of public governance.

1.0.2. NPM implementation in Indonesia

Before the Asian economic crisis in the middle of the 1990s, Indonesia was one of the Asian Tigers after Malaysia, Thailand, South Korea, and the Philippine (Stiglitz, 2002). In citing Boorman and Hume (n.d.), even assert that the then Indonesian economic achievement was spectacular compared to Nigeria which commenced its development program at the same time and with almost similar characteristic in their economic starting point (Stiglitz, 2002). For Indonesia, the crisis had ruined not only its economy, but also its politics, social, environment, as well as legal culture. Therefore, from President Habibie's era to date, the Indonesian participation in various parts of NPM was not comparable with those carried out by the UK, the

USA, Australia, New Zealand, and – to a certain extent – even by Malaysia. The Indonesian approach to NPM resembles what Larbi (1999) refers to as a “crisis state” approach to NPM. Among others, this approach is characterized by its serious attempts to speed up its economic recovery through various capitalistic and liberal initiatives such as decentralization; privatization, economic deregulation, as well as implementation of performance based budgeting and accrual public sector accounting.

Since the crisis is multi dimensional in nature, the reform to recover does not limit its scope to the economic sphere, but also covers such areas as politics, legal, as well as public administration. Accordingly, during the general assembly session of 1998, *Majlis Permusyawaratan Rakyat* (People Consultative Assembly) amended the Indonesian constitution in order to provide a legal basis for reforming the public sector. Three assembly statements (No. X/1998, No.XI/1998 and No. XV/1998) deal with the Indonesian public sector reform. First, statement No. X/1998 mandates the government to reform development programmes to revive and normalize national life. Second, statement No. XI/1998 instructs the government to abolish the practice of corruption, collusion and nepotism. Third, statement No. XV/1998 which contains a strong recommendation for the local government to implement principles of autonomy, good management, fair allocation and utilization of national resources, as well as the accomplishment of fiscal balance between central and local government.

In its progression, the second statement has become the legal foundation for the decentralization agenda in contemporary Indonesia. Based on that statement, Habibie’s administration enacted two Indonesian Laws (Law 22/1999 and Law 25/1999). These laws were monumental on two grounds. First, they introduced more

discretion for local governments both in the domain of fiscal and public political privilege. Second, they are the main references for the entire agenda of contemporary Indonesian decentralization, including local government accounting and budgeting reform.

Furthermore, through President Instruction No.7/1999, President Habibie introduced a mandatory reporting to measure performance accountability of governmental agencies through a report known as *LAKIP (Laporan Akuntabilitas Kinerja Instansi Pemerintah)*. The report requires any Indonesian governmental agency, including local governments, to prepare their programmes based on performance orientation as well as to report their performance achievement through *LAKIP*. Within this reporting scheme, Indonesian governmental agencies, for the first time, need to perform strategic planning through formulating statements of vision, mission and strategies to be used as the basis of their programmes and activities. Thus, for Indonesia, the introduction of *LAKIP* could be claimed as a commencement of NPM. NPM is even understood more flexibly as any initiative to make public sector more responsive to the market.

In fact NPM had been introduced earlier in Indonesia. It was even before the enactment of the People Consultative Assembly's statement XI/1998. The Indonesian government had introduced *PAKTO 88*, a deregulation policy package to relax the financial sector (banking) from previous policies. Thus, the embryo of NPM in Indonesia was introduced in 1988. However, only after the legislation of Law 22/1999 and Law 25/1999 in 1999, was the NPM significantly implemented in Indonesia.

Unlike the previous local government law (Law No. 5/1974), the Law No. 22/1999 offers wider discretions to local government. To a certain extent, it even

seems to follow a federalist state model rather than an autonomy model within a unitary state. For instance, according to article No. 7 of the law, local governments have all the authority to manage governmental affairs except in areas of foreign policy, defence and security policy, monetary and fiscal policy, religious policy, and a number of special policies considered critical and strategic that remained in the jurisdiction of central government.

To improve the local government's capacity in serving their local constituents, the new Indonesian governments, from Habibie's administration until the current government, introduced legal regulations and policies in relevant areas. A document containing a joint agreement was made by the Minister of Home Affairs (MoHA) and the State Minister of Development Planning (SMDP) to specifically support the decentralization scheme. The document elaborates a number of initiatives that should be carried out under the decentralization programs. Among them are: (1) development of legal regulations needed to facilitate decentralization, (2) development of local governmental institutions, (3) development of local government personnel, (4) development of local government finance, (5) capacity building for local parliament, and (6) development of local and regional economy. It is easily understood that Local government accounting and budgeting are critical for supporting the fourth initiative. They are viewed as critical to enable local authorities to plan, execute and report their accountability to their stakeholders. In this regard, the Indonesian government followed it up by introducing PBBS and accrual accounting through Government Regulation (GR) 105/2000. Based on GR 105/2000, the Ministry of Home Affairs (MoHA) issued the Statement of the Minister of Home Affairs No. 29/2002 (domestically known as *kepmendagri* 29/2002) as the formal, more practical guideline to implement the GR. Accordingly, it is argued that the

introduction of GR 105/2000 was the gateway of local government accounting reform in Indonesia.

Meanwhile, there are differences among NPM observers in using the term “accounting reform.” Andrews (2004), for instance, used it to epitomize the adoption of performance based budgeting (PBB) systems by the United States local governments. Caperchione (2003), Christiaens (2003) and Ryan (1999) employed the term to represent a change in local government accounting systems from cameralistic (cash basis) to a business-like model (accrual basis). However, they share a common understanding that the word “reform” connotes the newness, improvement, or implementation of an object having extensive impacts on the existing condition. Following that, this study uses accounting reform to indicate both changes, i.e. the change in local government accounting from single entry cash basis accounting to double entry accrual accounting, and the change from the traditional line item budgeting system to performance based budgeting system. The approach used by this thesis is strongly supported by the fact that these changes are legally backed by a similar set of Indonesian laws and regulations such as GR 105/2000, *statement of MoHA No. 29/2002*, Law 17/2003, as well as Law 1/2004. Another reason, as pointed out by Othman et al (2007), is that governmental accounting is always a budgetary accounting. This is because no unbudgeted governmental transaction is allowed within a governmental agency. The budget is a legal instrument of the government to fund its activities. Thus, the governmental accounting system always facilitates budget preparation as well as recording and reporting budgeted financial transactions. Therefore, although initiatives to use PBBS could be clearly separated from activities relating to accrual accounting, in reality, both are so closely interconnected. The product of PBBS becomes the direct input of accrual accounting.

From accountability point of view, PBBS and accrual accounting are deemed as basic tools for improving governmental accountability. The PBBS enhances accountability, effectiveness and efficiency of local government revenue generating, spending and investments at their planning stage, whereas accrual accounting is a part of internal control mechanism that protects governmental organizations from committing fraud. Accrual accounting is also believed to be the effective tools to ensure that the government will be more responsive to market demand or customers. Since accrual accounting is more auditable, it helps local government to disclose relevant information to interested parties so that the local government may obtain its political legitimacy.

It is implied that good governmental budgeting and accounting systems are not only optional, but are imperative. In the case of Indonesia, researching PBBS without accrual accounting is theoretically possible, but it is not practically beneficial. In the words of Guthrie, Parker and English (2003) as well as Broadbent and Laughlin (1998), the development of the current Indonesian local government accounting reform is in the threshold of “New Accounting,” an NPM product in the domain of public sector accounting which is philosophically based on “managerialism” and a strong orientation to accountability in the management.

1.0.3 Organizational Perspectives of Accounting Reform

The role of accounting in any organization is vital. Yet, its influence embraces various facets of organization. Meanwhile, the transformation from traditional and line item budget to PBB as well as the transformation from cash basis and single entry accounting to double entry and accrual accounting in the Indonesian local government is a real manifestation of accounting reform. Thus, it is speculated that such reform will result in an organizational changes within the local government

organization. Senge (1999) as mentioned by Heller (2003, p. 416), defines organizational change as a combination of “inner shifts in people's values, aspirations, and behaviors with outer changes in processes, strategies, and systems (p. 15)”. Thus, only change that entails a hybridization of the internal and external dimension of an organization can be recognized as organizational change. Alternatively, as mentioned by Jones (2001), organizational change is “the movement away from a present state toward a future state.” Combining these two definitions, a new understanding can be obtained in which organizational change basically involves any movement or alteration from a certain state of organizational element, either in the inner parts of the people within the organization or the outer part such as the process and structure toward a desired new state.

Organizational change normally interlinks four interdependent areas; namely (1) human resources, (2) functional resources, (3) technological capabilities, and (4) organizational capabilities (Jones, 2001). Consequently, organizational change influences and is influenced by the quality of these four areas controlled by the organization. It can be speculated, therefore, that when the accounting reform results in an organizational change, the final mode of change depends on the quality of these areas and their quality of interactions among them. To illustrate that the information, including financial information carried by budget and accounting, is powerful and the impact of its change is spectacular, Thompson and Miller (2003, p. 329) argue that the change in the mode and quality of information usage was the responsible factor behind two revivals of capitalistic (market) world economy, i. e. in pre 1913 and the beginning of 21st century. They said:

“What were the changes in technology that caused bureaucracies outperform markets? Here, the surprising answer is changes in organizational arrangements themselves; that is, changes in organizational design, personnel systems, operational engineering, accounting systems, and control technologies. This answer reflects the current fashionable view among economists that the comparative

advantage of institutional arrangements boils down to a question of information costs and that actual arrangements are solutions to information problems—the costs associated with search, bargaining, monitoring, and enforcement. Hence, transformations of organizational arrangements must be largely driven by changes in information costs. (Basic texts on information costs include Arrow, 1969; Bazel, 1982; Milgrom & Roberts, 1992; Williamson, 1985, 1990.)”

According to this statement, the mode in information cost (to search, bargain, monitor, and enforce) that eventually determines the change in organization. The transformation into the new local government budgetary and accounting systems brought by the reform is to provide local government decision makers with more relevant, complete, accurate, in time, and transparent information about financial matters that needed in economic decision making such as information about the cost. The information produced is also useful for the legal responsibility settlement so that the organization will become more, effective, efficient and accountable. The change in efficiency, according to Thompson and Miller (2003) is a potential driver affecting organizational change.

Thus the successfulness in implementing budget and accounting puts local government in a better position to improve other areas. As these areas are interdependent, the success of accounting reform tends to produce organizational change. The values and practice such as transparency, competition, performance orientation, contracting out and the utilization of market price as the only fair measurement in exchange transactions of goods and services enforced by the reform are assumed to be an effective means to change the behaviour and culture of adopting local government towards a more compatible condition with that demanded by NPM. However, within a reform adopter, some parties may be shocked by the introduction of these organization norms, values, and practices. At the individual organization level, their effectiveness as enablers depend on many factors such as

current staff competency, culture, information literacy, and the legacy of the old institution.

Meanwhile, within NIS, or more exactly neo institutionalism (Greenwood & Hinings, 1996) which is followed by this study, an organization can not be recognized merely as a technical or economical entity. It is social, cultural and political (Carruthers, 1995). Thus, it does not necessarily follow economic imperative for optimum efficiency. Since organization is surrounded by its environment, legitimacy from its environment, i.e. technical and institutional environment, is vital. However, the legitimacy is not automatically gained through acting rationally (efficiently). The most significant element of such legitimacy from institutional environment is organizational conformity to institutional environment characteristics. The more conformities shown by an organization to its institutional environment, the more legitimate the organization is.

Since legitimacy is vital for organizational life, an organization is persistently in its attempt to gain its legitimacy by institutionalizing environmental elements (ideas, logics, practices, techniques, habits) into the organization so that they become its own institutions. In that, it resembles the characteristics of its institutional environment (isomorphism). Following NIS, institution is a rule-like reference for collective action in the organization (DiMaggio & Powell, 1991; and Jepperson, 1991). DiMaggio & Powell (1991) introduce three ways for an organization to become isomorphic with its institutional environment; coercive, mimetic, and normative. Whatever way is followed by an organization in adopting new element from its institutional environment, once it has been institutionalized as an institution, the institution takes the role of stabilizer and harmonizer. It produces “normality” within the organization vis - a - vis its institutional environment. Thus,

what is produced is stability and not organizational change. At this point, earlier new institutionalists differ from later institutionalists. For the later institutionalists, stability oriented is seen as an insufficient part of the theory that should be revived. The earlier point of view, for example, can be understood from DiMaggio's argument about institutionalism. According to DiMaggio (1991, p. 268), institutionalism:

“provides a one-sided vision of institutional change that emphasizes taken-for-granted, non directed, nonconflictual evolution at the expense of intentional (if boundedly rational), directive, and conflict-laden process that define fields and set them upon trajectories that eventually appears as “natural” development to participants and observers alike” (DiMaggio, 1991, p. 268).

The way an organization's struggle to have new element from institutional environment as institution is labelled as institutionalization. According to Meyer & Rowan (1991), institutionalization is a social process by which an organization's programmes, structures and policies obtain “rule-like-status” as legitimate parts of the organization. NIS assumes that institutionalization is rather static, non-mutually responsive and puts the organization on the passive side in confronting pressures from the institutional environment or organizational field.

This study does not completely follow such an opinion, but rather on later version of NIS works performed by Oliver (1991), Greenwood & Hinings (1996), Lawrence (1999), and Hoque (2005) which enrich NIS to be a powerful theory to explain the inner dynamics of organization during institutionalization. Since the institutional environment is assumed to be dynamic, while new elements from institutional environment continuously challenge the institutionalized element, as a result, there is a pressure to instil new elements while at the same time there is also the power to resist or to respond to the pressures in the best mode that organization can perform. Hence, institutionalization is the place where the power of creativity, innovation, and pioneering (entrepreneurship) which are coloured by internal conflict

to create uniqueness, are confronted with institutional pressures that force organization to be alike (isomorphic). The final state resulting from this process is basically unique to an individual organization, at least in its degree of attachment to institutional environmental characteristics. In some cases, institutionalization may produce a highly attached (tightly coupled) condition where the existence of “window dressing” is minor. In other cases, institutionalization may result in a loose coupled (decouple) situation where the organization tries to show its conformity to institutional demand, not by performing substantial elements of such requirement, but rather going behind its artificial appearances. In line with such reasoning, instrumentality (or ceremoniality) of the institution within an organization depends on several factors, such as the way a new element from institutional environment is institutionalized by the organization, the internal characteristics of the organization such as its dynamics, and the availability of the institutional entrepreneur as well as its organization culture.

Until recently, however, a scientific gap has existed. First, there were only limited academic works exploring NPM in Indonesia. Most research in this area is not academic but parts of NPM official reports prepared by staff of international donor agencies like the ADB, IMF, the World Bank, GTZ, as well as CIDA. Some works in NPM utilizing NIS or institutionalism do existed, among others Covaleski & Aiken (1986), Carruthers (1995), Brignall & Modell (2000), Burns (2000), Burns & Scapens (2000), Modell (2001), Dollery (2001), Hussain & Hoque (2002), Covaleski, Evans, Luft, & Shields (2003), Hoque (2005), Siti-Nabiha & Scapens (2005), Pedersen & Dobin (2006), James (2006), Elwood & Newberry (2007), Ezzamel, Hyndman, Johnsen, Lapsley, & Pallot (2007), and also Dambrin, Lambert

& Sponem (2007). However, Indonesian scientific works in the area that employed New Institutional Sociology is nonexistent.

Secondly, the case study approach in Indonesian accounting studies is relatively new. It was not popularized before some Indonesian accounting scholars from Australian and British Universities pioneered it through various perspectives of qualitative research around 2000s. Academic works in NPM using case studies as their approach are still limited. Among others are the works of Wibawa (2002) and also Mahmudi & Mardiasmo (2004).

Thirdly, since the introduction of the processual approach in qualitative research, as pioneered by scholars such as Pettigrew (1997), Dawson (1997), Hinings (1997), Woiceshyn (1997), there have been only a few studies in accounting or NPM employing such approach, for instance Funnell (1998), James (2006), and Jones (2006). One study was performed by an Indonesian (Kurnia & Johnston, 2000), but its locus of study was the Australian grocery industry. Strongly dominated by quantitative traditions, the qualitative approach, specifically based on case studies, do not appear to be so popular among Indonesian accounting researchers. In this context, this study can be as deemed to fill this gap.

Fourth, since NIS is claimed to be unable to understand change in an individual organization, most studies employing NIS focus on the organizational field as their unit of analysis. Only after the publication of Oliver's work (1991) in the Academy of Management Review which was then strengthened by the work of Greenwood & Hinings (1996) and Lawrence (1999), did accounting works employing neo institutionalism emerged. Among others are the work of Hoque (2005), and Ezzamel et al. (2007).

The following NPM studies in Indonesia are considered relevant. Although they are not necessarily similar in the approach or setting as this study, some are close to its main issue, for instance those performed by Bastian (1998), Prodjoharjono (1999), Mardiasmo (1999), Imbaruddin (2003), Afiah (2004) and Rosidi (2007). Prodjoharjono, investigates Indonesian local government accounting by employing Luder's modified contingency model as the basis of analysis. Mardiasmo's work (1999) explores the impact of Indonesian central and provincial government intervention on local government budgetary management, whereas Bastian (1999) studies about Indonesian privatization policies. Imbaruddin (2003) looks at the institutional capacity of local government in Makasar. Meanwhile, Afiah (2004) uses the non-parametric path analysis to examine the influence of local government apparatus and local parliament members' competence, budgeting and accounting information system to information quality and good governance in West Java. The work of Rosidi (2007) connects leadership typologies, i.e. transformational versus transactional, with the success of managing performance based budgets in East Java local governments. None of them, however, employs the institutional theory.

There are three other Indonesian NPM studies that are significant and should be mentioned. First, the work of Wibawa (2002), which explores the implementability of NPM within Regency's administration. Second, the work of Dwianasari, Ririn & Mardiasmo (2004) that investigates the effect of the relationship between the budgetary and decentralization structure on the managerial performance of local government agencies by treating organizational commitment as the intervening variable. Third is the work conducted by Mahmudi & Mardiasmo (2004). Instead of investigating the implementability of accrual accounting or performance

based budgeting, this work looks at how the performance of local governments in the era of autonomy is empirically measured.

It is obvious that, from these nine studies, four are qualitative, i.e. Prodjoharjono (1999), Mardiasmo (1999), Bastian (1998), and Mahmudi & Mardiasmo (2004), while the other five are quantitative. From the qualitative studies, the work of Prodjoharjono is the closest one to this case study in term of the main issue investigated and the research approach or strategy employed. The difference is the unit of analysis used in Prodjoharjono's work. Although, the case organizations selected are limited to three districts (one in West Java, one in Kalimantan, and one in Celebes), they are deemed to represent Indonesia as a whole. This is because of his commitment to follow Yin's comparative case model, placing his study as "rather positivistic qualitative case" where generalization remains as its orientation. The theory employed to inform the case is Luder's modified contingency model. According to this model, there are basically four responsible factors behind the success or failure of a government's innovation to shift its model of accounting towards accrual one. These are stimuli, expectation of change within information users as well as change behaviour within information producers, both of which are classified as structural factor, and implementation barriers (Luder, 1992). Consistent with this model, a government (country) is typified as more or less favourable to carry out accounting reform depends on the existence and the quality of those factors surrounding the reforming government. Albeit these studies are scientifically valuable, however none of them applied institutional or processual approach. Due to the closeness of Prodjoharjono's work (1999) with this case study, some excerpts from his work are presented below.

Employing Luder's model, Prodjoharjono found that Indonesia is classified as an unfavourable place for successful accounting reform. The legal system, size of jurisdiction, lack of financial resources, and lack of qualified staff were claimed to be responsible factors behind such unfavourableness. Factors such as poor project coordination and heavy intervention by the Ministry of Finance toward the jurisdiction of the Ministry of Home Affairs were also identified as other responsible factors behind the failure of accounting reform conducted by the Ministry of Finance in 1985-1993 (Prodjoharjono, 1999).

This study is different in many respects. First, this study, using the processual approach, it examines the process of Indonesian local government accounting reform from the New Institutional Sociology perspective. Accordingly, this study is not ahistorical. The temporal (time) aspects as well as spatial (place) aspects become important factors to understand the contextuality of the institutionalization of the reform. Second, rather than being based on survey, this study is designed as case study of a single organization, an Indonesian local government whose pseudo name is *Ratan Ombu Regency* (hereafter is known as ROR). Since 2002, the case organization has been implementing the reform, therefore that the recency and the contextuality of the case are better as compared to post hoc studies conducted through survey.

1.1. Research Objective and Questions

The Indonesian local government accounting reform is a national agenda with a single implementation model, it is top-down, radical, and coercive. However, most of studies investigating the reform are quantitative in nature. In addition, none of them is based on NIS perspective or employed processual approach. As such, there is a lack of in-depth knowledge about the reform, for instance regarding the

institutionalization process of the reform, or about the impact of the new systems brought by the reform on corresponding organization. Such issues need an in-depth investigation. Thus, an interpretive case study specifically investigating the institutionalization of the reform in a local government level is considered important to narrow the gap in such area of study.

Guided by the notion of neo institutionalism perspective, qualitative case methodology, processual approach, and the development of local government accounting reform in Indonesia as a form of NPM implementation, this study selects institutionalization of accrual accounting and performance based budgeting in *Ratan Ombo Regency* as the main issue to be examined. The main objective of this research is to get an in-depth understanding about the institutionalization of accrual accounting and performance based budgeting carried by the case organization. It is expected that through this study “the what”, “the how” and “the why” of the institutionalization of new local accounting and budgeting at ROR brought by contemporary Indonesian accounting reform could be well understood. In reaching such objective as well as to guide the way the research is conducted, a series of research questions are formulated as follows:

1. Why has Indonesian Government reformed its local government accounting and budgeting systems? What are the characteristics of and the value underlying the Indonesian local government accounting and budgeting reform?
2. Who are the players behind the Indonesian local government accounting and budgeting reform?
3. How is the reform viewed by focal parties in the case organization; and has it been institutionalized?

4. Does the reform lead to organizational change?

This study is very significant both from the theoretical perspective as well as for practical reasons. First, this study fills the gap in the area of NPM, qualitative study, institutional perspective, and the processual approach in Indonesia with an Indonesian case which to date are few in number. Secondly, in the institutionalism context, it is also an attempt to extend existing opportunities of applying NIS at the individual organization level with recognition of the inner dynamics during institutionalization. The opportunity offered by this study in applying NIS at the individual organization level will be a valuable theoretical contribution for studies in accounting and management in general since the object of most studies is the individual organization level.

In the practical domain, specifically in the public sector area, this study significantly contributes contextual understanding about how new budgeting and accounting system are adopted and institutionalized within an Indonesian local government. Though it is not this study's main purpose to generalize its findings, but recognizing that the situations taking place in ROR may resemble with what happen in other Indonesian local governments, such contextual understanding is very useful for other adopters. ROR's experience may plot useful route for any late reform adopters to adopt a better strategy and approach in their journey of reform.

1.2 The Outline of the Thesis

This thesis consists of eight chapters, and is organized as follows. Chapter one is the introduction. In this chapter, the background of the study demonstrates empirical and theoretical analysis, which leads to the main problem of the research as well as research questions, research objectives, research method and also elaboration of

contribution from research. This chapter is concluded by a presentation of outline of the study.

Chapter two provides a literature review on two main related issues of this study, namely (1) New Public Management (NPM) and (2) accounting reform. The chapter briefly discusses the development of NPM in general, and as it goes further, the chapter embraces accounting and/or budgeting reform in particular. The applicability of accrual accounting and performance based budgeting in local governments is then discussed.

Chapter three discusses issues related to new institutional sociology (NIS). The opening part of this chapter discusses the core idea of NIS, which is followed by an extensive discussion of NIS, including the development of NIS, its relationship with Old Institutional Economics (OIE), Neo Classical Economics (NCE) and New Institutional Economics (NIE). This discussion is to construct a clear interconnectedness between various strands of institutionalism in social sciences influencing the position and the development of NIS. Since NIS is mainly concerned with the process of institutionalization, several extended new institutional theories are also considered by this study. Among them are the work of Oliver (1991) which introduces strategic organizational response typologies during the process of institutionalization, and the work of Dillard, Rigsby & Goodman (2004) that combines NIS with Giddens' structuration theory to identify duality in the institutional process. After evaluating the superiorities and shortcomings of each, a logical justification for using NIS is provided.

Chapter four is designed to explore the research methodology. The chapter commences by a discussion about the differences in philosophical background behind quantitative and qualitative research. The discussion is then continued by