Understanding the forces and critical features of a new reporting and budgeting system adoption by Indonesian local government

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Abstract

Purpose – This paper aims to critically explore the forces and critical features relating to the adoption of a new reporting and budgeting system (RBS) in Indonesian local governments.

Design/methodology/approach – The study is based on an intensive analysis of document sources and interview scripts around the institutionalization of RBS by the Indonesian government and uses the adaption of Dillard *et al.* (2004) institutional model in informing its findings.

Findings – The authors find that at the national level, the key drivers in RBS adoption were a combination of exogenous economic and coercive pressures and the wish to mimic accounting reforms in developed nations. At the local government level, the internalization of RBS is a response to a legal obligation imposed by the central government. Despite the RBS adoption has strengthened the transparency of local authorities reports – it limits the roles of other members of citizens in determining how local government budgets are allocated.

Research limitations/implications – The results of the study should be understood in the historical and institutional contexts of organizations observed.

Practical implications – The authors reinforce the notion that accounting as a business language dominates narratives and conversations surrounding the nature of government reporting and budgeting systems and how resource allocation is formulated and practiced. This should remind policymakers in other developing nations that any implementation of a new accounting technology should consider institutional capacities of public sector organizations and how the new technology benefits the public.

Social implications – The authors argue that the dominant role of international financial authorities in the policymaking and implementation of RBS challenges the aim of autonomy policies, which grant greater roles for local authorities and citizens in determining the nature of the budgets and operation of local authorities.

Originality/value – This study extends institutional theory by adapting the Dillard *et al.* (2004) model in explaining the forces, actors and critical features of a new accounting system adoption by local governments.

Keywords Indonesia, NPM, Emerging economies, Reporting and budgeting systems

Paper type Research paper

1. Background

One of the common features of recent public sector accounting reforms in developing nations is the adoption of new public management (NPM) reporting and budgeting system (henceforth RBS) and audit practices for government organizations (Sharma and Lawrence, 2005;

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Sharma and Lawrence, 2009; Christensen and Parker, 2010; Ball, 2012; De Vries and Nemec, 2013; Gigli and Mariani, 2018; Lapsley and Miller, 2019). In many countries, the adoption of such a technology of governance is related to the efforts to increase government accountability as mechanism of democratic governance, trustworthiness and transparency with citizens (Tasan-Kok *et al.*, 2019). However, the adoption of RBS also reinforces the notion that a private-style accounting system is a powerful discourse with consequences to the daily lives of the public (Sharma and Hoque, 2002; Carter, 2011, p. 583; Sharma and Lawrence, 2015). Equally, despite the adoption of RBS may be linked to the debates around democratic governance "best practices" such a trend also creates opportunities for international financial authorities, central governmental policymakers and professional organizations to take advance through the institutionalization of neoliberal policies with unexpected consequences in developing nations (Dey, 2003; Rahaman, 2009). As with the earlier adopters of NPM practices (New Zealand, the UK and Australia), the introduction of RBS is constituent of broader political, structural public sector reforms (Saleh, 2006; Sharma and Lawrence, 2008). The approach is purported to engender better accuracy concerning current income and balance sheet positions. Such improved efficiency and accuracy link to enhanced decision making and prediction (Pallot, 1992), by recognizing economic events when they occur (Ball, 2005).

Under RBS, government organizations including local governments in Indonesia are now required to prepare business style reports, which induce balance sheets, cash flows, revenue and expenditures reports, cash flows, performance-based budgets and performance evaluation reports (Fahmid *et al.*, 2019). This system differs from the old government reporting system, which only required all public sector agencies to prepare cash-based budget realization reports (Law 17/2003; Nasution, 2009). The RBS adoption aims at:

- improving accountability, management practices, decision making and efficiency within the public sector;
- improving access to government reports; and
- eradicating corruption (Nasution, 2009; Law 17/2007).

These are noteworthy aims, but recent research suggests that a RBS adoption requires significant institutional transformation beyond a formal change of accounting systems (Siti-Nabiha and Scapens, 2005; Rahaman, 2009). In addition, Hood and Dixon (2015) indicate that the adoption of NPM ideology includes accrual accounting has undermined public administration values and public interests. As such, for a new democracy, such as Indonesia, it is necessity to investigate how the mobilization of NPM ideas through the adoption of RBS establishes a trade-off between the interests of global players and local actors at the national and local levels. As Crawford's (2003) argues that following the collapse of President Suharto in 1998 internationally driven economic programs carried out in Indonesia have undermined the roles and aspiration of the public and their needs. This argument requires a further investigation in the context of the BRP's adoption in Indonesia as the existing literature in other nations shows a lack of correlation between public sector reporting systems adopted and the needs and interests of the users of reports (Cohen and Karatzimas, 2017). Such an investigation is necessary to complement prior studies to enrich our understanding about critical factors and actors relating to the adoption of a new accounting technology in emerging economies. In addition, as the adoption of RBS is always framed under the notion of a better accountability and transparency practice and better use of public sector resources, it is necessary to know how it has been realized at organizational level. Beyond this, despite many studies have used institutional theory in informing the critical feature, actors and impacts of NPM reforms in developing economies have been undertaken (Norhayati and Siti-Nabiha, 2009) limited studies have been carried out using such a theory in understanding how an integrated reporting and budgeting system such as the Indonesian RBS is institutionalized within organizations. Therefore, the aim study is to:

- understand the driving forces and key factors influencing the policy making of RBS adoption in Indonesian public sector at national and local levels; and
- how RBS is internalized at local government level in Indonesia.

This study contributes to the literature in several ways. The study extends the use of institutional theory by adaptng Dillard *et al.* (2004) model in examining the interaction between international actors such as international financial authorities (the IMF, World Bank) with national policymakers in the policymaking and implementation a reporting and bugeting system in an emerging econonomy. In this sense, the model is instrumental in informing how RBS adopted by local governments. Prior studies have suggested the need to extend public sector accounting studies beyong developed nations (Wickramasinghe and Hopper, 2005; Wickramasinghe *et al.*, 2004; Awathsi *et al.*, 1998; Efferin and Hopper, 2007; Euske and Riccaboni, 1999; Harrison, 1993; Tsui, 2001). We argue that the use of Dillard *et al.* (2004) model enhances institutional theory by focusing on economic, social and political factors and influential actors through mapping the field (at organizational levels), as actors accentuate their roles in policy formulation and implementation of RBS. Our adaption of the model affords the opportunity to contextualize the RBS policy process and its adoption at organizational levels by local governments in Indonesia. This is crucial, given the institutionalization of a public sector accounting system in emerging countries, institutionally complex and in many ways produces unexpected outcomes (Siti-Nabiha and Scapens, 2005). Particularly for Indonesia, the adoption of RBS is a radical shock, in which thousands of government entities and agencies from the national level, provincial, district, municipality and village levels are required to adopt the system simultaneously RBS as stipulated by the Government Regulation 71 in 2010. At the village level, this policy is very ambiguous as it requires 75,000 village governments to adopt that system (Antlöv *et al.*, 2016).

In addition, the study contributes to the literature as prior studies on public sector accounting reporting system in Indonesia primarily focus on the reporting elements of RBS and fail to investigate the budget elements of the new reporting system (Harun *et al.*, 2013; McLeod and Harun, 2014; Mir and Sutiyono, 2013). In fact, RBS is a integrated reporting and budgeting system applied for the public sector in Indonesia including local governments (Law 17/2013). By exploring these two elements of the new RBS system, this study provides a better insight as to how the system works at organizational level. Finally, this study addresses a geopolitically important emerging economy that has not been subject to significant study concerning public sector accounting and budget reforms. This is important to be taken into account as prior studies recommend further studies in this area to focussed in developing economies (Siti-Nabiha and Scapens, 2005; Wickramasinghe and Hopper, 2005; Wickramasinghe *et al.*, 2004) and littte attention paid to Indonesia particularly (Harun *et al.*, 2013). The rest of the paper flows as follows. Section 2 presents relevant literature concerning institutional theory that informs this study. We then outline the methods used for data collection and interpretation of the data in Section 3. Section 4 discusses the results of this study and the paper concludes by considering implications for policymakers and future studies in Section 5.

2. Theoretical framework

2.1 Institutional theory

Socially constructed and critical theories provide useful heuristics in understanding the roles of actors (people or organizations) and power in the institutionalization of accounting systems in the public sector (Ansari and Euske, 1987; Carpenter and Feroz, 2001; Dillard *et al.*, 2004; Baker and Rennie, 2006; Norhayati and Siti-Nabiha, 2009; Fowler, 2009; Monteiro and Aibar-Guzmán, 2010; Qian *et al.*, 2011; Hyndman and Connolly, 2011; Elmassri *et al.*, 2016). Institutional theory explains the driving forces behind the structural and institutional changes of organizations (Scapens, 2006; Lounsbury, 2008; Sharma *et al.*, 2010, 2012; Reddy and Sharma, 2014; Englund and Gerdin, 2018). DiMaggio and Powell (1983) conceptualized three ways of diffusion of ideas that lead to organizational changes:

(1) a coercive mechanism that is driven by resource dependency relationships extending beyond the organization;

(2) a mimetic mechanism in which a tendency to mimic an apparently successful peer; and

(3) a normative-driven change as the consequence of shared worldviews.

Numerous studies have used the theory to explain changes in organizations. For example, Baker and Rennie (2006) used institutional theory to explain the social and political factors that led to the adoption of RBS in the Canadian Government public sector. They argued that fiscal stress (the inability of governments to balance budgets) was a key factor that prompted the Auditor General in Canada to endorse RBS as the basis for measuring and reporting government accounts. Saleh and Pendlebury (2006) demonstrated that the stimuli for accounting change in the Malaysian public sector reforms were the desire to improve the quality of financial information for managerial and control purposes. And similarly, Sharma and Lawrence (2008) used institutional theory to explain the economic factors that prompted adoption of RBS to conceptualize the impact of new public management-based accounting practices in the Fijian public sector. For our purposes, each article stresses a shift in "whole of government" accounting with RBS, that adoption of RBS is politically motivated and that "power" plays a central role.

2.2 The dynamic of institutional change

Dillard *et al.* (2004) redeveloped Burns and Scapens (2000) model for institutional theory. The original approach conceptualized accounting changes as developing new or altering old routines and actions at the organizational level but failed to take into account the roles of actors and their actions in the processes and outcomes of accounting changes. In contrast, Dillard *et al.* (2004) suggest that accounting institutions imposed by organizational actors constitute a strategic response to or outcome of institutional pressures, which links the actions of actors within organizations to the social and economic pressures acting upon the organization. This notion supports Dorado's (2005, p. 392) proposition that the process of institutionalization is part of a larger [phenomenon] composed of multiple, interpenetrating institutional structures operating at multiple levels and multiple sectors. We hold that this approach to institutional theory places institutionalism at the center of a contextual understanding of the 'systematicity of the system.

For Dillard *et al.* (2004), the process of institutionalization of an accounting system involves three levels of institution, as simple changes in accounting systems are not institutional. First, the institutional change should reflect and shape the overarching socio-political and economic level in which societal norms and values are established and disseminated to members of society. The second level constitutes the organizational field level, where the institutional changes are filtered through socio-economic configurations, which involve key groups of actors as industry groups, professional organizations and geographical collectives. At the third level, the framework examines the agent level, by examining how actors within organizations adapt a particular institution (rule or practice). The Dillard *et al.* (2004) model conceptualizes that at the macro-level, institutions operate hegemonically, as a form of power to organize consent.

Hopper and Major (2007) and Moore (2013) use the Dillard *et al.* (2004) model to understand the impact of the adoption of a new accounting system within organizations. Hopper and Major's (2007) identified factors behind the adoption of activity-based costing (ABC) in a Portuguese telecommunications company due to regulatory shifts. ABC was implemented as a symbol for improved competitiveness and cost efficiency, but its adoption and adaptation involved mimetic, coercive and normative isomorphic factors. The article supports criticisms of early new institutional sociology research for the dichotomy between economic and institutional pressures, neglecting internal organizational dynamics and the assumption that private organizations were exempt from institutional pressures (Hopper and Major, 2007, p. 59). Also, Moore (2013) explores how, and to what extent, the institutionalization and de-institutionalization of internal sustainable and environmental management practices in a public sector water company in Australia. In the paper, the institutionalization and subsequent reproduction of practices depend on the virtual dimensions of structuration. Within this context, the organizational field and the organizational level of the individual water business were characterized by new organizational practices of water conservation, as well as unintended consequences and decoupling. Moore (2013) highlights the roles of actors in the three levels of institutions in the development of practices for sustainable development with the routine procedures of respective management systems operating as ontological security for agents (Moore, 2013, p. 266). These two studies (Hopper and Major, 2007; Moore, 2013) illustrate the role of actors, what interests they expect, and the political power mobilized within and outside the organization in the institutionalization of new practices.

2.3 Adaptation of Dillard et al. (2004) model for the Indonesian public sector context

As a nation that has population residing in thousands of islands with different ethnic groups and different historical backgrounds, political and economic aspirations, Dillard *et al.* (2004) model has been useful in illuminating whether these differences are reflected in policy, power and in the adoption and implementation of RBS. Nonetheless, for this study, we did not adopt the model as a totality. In using the model, we had to be mindful of fundamental differences of organizations used by Dillard *et al.* (2004) in developing the model, private sector, and the organizational, political and institutional context of this study. The following discusses our adaptation of the model for this study:

- First, as the Dillard *et al.* (2004) model argues that the institutional changes should reflect the overreaching socio-political and economic level in which social norms and values are established and disseminated to members of society, we expected such a phenomenon occurs at the national level. For emerging economies, key actors are known as active actors involved in the dissemination the new ideals at this level would not only be from government organizations but also international financial authorities such as the IMF and the World (Sharma and Lawrence, 2008, 2015; Rahaman, 2009). Therefore, the expected actors involved in the diffusion of new ideals in the public sector in Indonesia would likely be these actors.
- Second, at the organizational field level, where the institutional changes are filtered through socio-economic configurations in which key actors such as industry groups, and professional organizations actively involved in institutionalization processes. For this study, we expect that the actors at this level may include professional

associations within and outside government organizations. For the Indonesian public sector, this also takes place at the national level given specific rules such as government regulations are determined at the national level (Wanandi, 2002; Alam, 2006).

- Finally, at the third level, the framework examines the actors involved in the internalization of a rule within organizations. We used the model to explore the implementation of RBS regarding reporting and budgetary practice, roles of specific agents and professions. We also used the model in depicting the institutional implications of the RBS, for example, to know the extent to which the role of RBS in supporting the decentralization policies which grant more roles of local governments and their citizens in the management, operation and reporting practice of local governments.

Table I depicts the adaption of the Dillard *et al.* (2004) model in analyzing the institutionalization of RBS at the national and local level in Indonesia.

3. Methods

This case study situates within the Indonesian public sector. The use of a case study approach is common to public sector accounting research (Ansari and Euske, 1987; Carpenter and Feroz, 2001; Christensen, 2002; Baker and Rennie, 2006; Nor-Aziah and Scapens, 2007; Christensen and Parker, 2010) as it provides a deeper understanding as to why and how accounting systems are developed, adopted and implemented but also how accounting systems are used by actors at the organizational level. We draw on two main sources for our information: publicly available documents and interviews. The documents included laws, government and ministerial decrees and audit reports from the State Audit Agency (*Badan Pemeriksa Keuangan*) in Indonesia. We also collected data from media reports and working papers issued by international organizations such as the World Bank, IMF and the Asian Development Bank discussing the implementation of RBS in the Indonesian public sector.

We conducted in-depth interviews with 61 participants to supplement document sources. The interviews, both at the national and local government level, improved our depth of understanding, specifically around the process and impacts of the RBS as suggested by Bui and de Villiers (2017). At the national level, we interviewed 18 participants involved in policy development concerning RBS implementation and those who drafted the government accounting standards in 2005. The participants included senior officials in the Department of Finance (*Departemen Keuangan*), Department of Home Affairs (*Departemen Dalam Negeri*) and the State Audit Agency (*Badan Pemeriksa Keuangan*). In addition, we

Table I.
Adaption of Dillard *et al.* (2004) model for the study

Level of institution	Focus of study*
Economic and political level	National government level
Organizational field	
Organizational level	Local government level

Notes: *The study focuses on exporting information relating to the social, economic and political factors, which drove the BRBS adoption and key actors who involve in the institutionalization of a specific rule, technique or a new accounting system in the public sector drawn from the Dillard *et al.* (2004) model. The date also reveals the information around the institutional implications of the BRBS adoption at organizational level (local governments understudy) interviewed World Bank consultants who actively engaged in the introduction of RBS into the Indonesian public sector, national parliamentary members and committee members of the Government Accounting Standard Committee. The purpose of these interviews at the national level was to understand the driving forces behind adopting RBS and the regulatory arrangements of the RBS adoption for the public sector.

At the local government level, we interviewed 43 participants included a variety of local governments, senior financial and accounting officials, local parliamentary members, accounting consultants, academics and non-government organization activists in one provincial government, two districts and two municipalities in one provincial government, two districts and a municipality. We selected these local governments because these organizations were among 20 local governments promoted by the central government as pilot projects in the implementation of RBS (Nasution, 2009). In addition, the selection of the local governments shows the difference of economic and social features of local governments in the country. The purpose of the interviews with the local participants was to understand the processes behind that micro-level application of RBS at the organizational level and its constraining impacts. The benefit of interviewing people at multiple levels with multiple participants helped us to understand the impact of RBS at different levels and in different organizational spaces. Thus, in practice, as researchers, we were in the field to understand and interpret context as Ahrens and Chapman (2006) suggested. Initial interviews were carried out in July 2014, with subsequent interviews from January-September 2014; July-August 2015; July-September 2015 and July 2016. Fifteen participants were interviewed twice. The length of the interviews ranged from 51 min to 129 min, and we recorded 85 per cent of interviews were recorded. To protect the identity of the participants, the details of people and local governments are not disclosed.

The data from the interviews and document sources were analysed to reach the aims of the study. Following the suggestions of Yin (2009) and Miles and Huberman (1994), the publicly available reports and the transcripts of the interviewees in the study were systematically categorized, coded and labeled in accordance with Dillard *et al.* (2004) model. Beyond this, we also tabulated all data into categories such as periods, people or organizations and the character of specific actions from specific actors relating to the institutionalization process of RBS in Indonesia. Tables II and III, respectively present key information about the participants and local governments selected in this study.

4. Findings and discussion

4.1 Relevant Indonesian history and reporting and budgeting system adoption

Although RBS was officially adopted in 2003, prior efforts to adopt a more informative reporting system in the Indonesian public sector had been initiated in the 1980s (Prawiro, 1987). However, given there was no formal change of the existing cash-based accounting system, these efforts failed. This situation quickly changed following the Asian financial crisis, and the end of Suharto's regime in 1998, the IMF, World Bank and the Asian Development Bank supported Indonesian efforts to reform its public sector, promoting the adoption of RBS (Harun *et al.*, 2013). Table IV depicts key economic and political moments and public sector accounting reforms undertaken as the late 1990s relevant to RBS adoption.

Law (*Undang-undang*) 17, issued in 2003, focused on state finance (*keuangan negara*) by requiring all government agencies to adopt RBS. This new regime starkly differs from the previous system, which only required governments institutions to prepare a budget realization report as their annual accountability report (Harun *et al.*, 2019). This was followed by the promulgation of Government Regulation (*Peraturan Pemerintah*) No. 24 in 2005 about government accounting standards. Furthermore, the

Level of organization	Site of participants	Date of interviews	No. of participants
National level	Department of Finance (*Departemen Keuangan*)	January-2014	3
	Supreme Audit Agency (*Badan Pemeriksa Keuangan*)	February-2014	3
	Department of Home Affairs (Departemen Dalam Negeri)	February-2014 July-2014	2
	National Parliament	June-July 2014	3
	World Bank	June-July 2014 July-2014	4
	Government Accounting Standard Committee	July-2014	3
Local level	Financial and accounting division of two provincial governments	July 2007 September 2014 June-July 2014 July-2015	8
	Financial and accounting divisions of two districts	March-September 2014 June-July 2014 July 2011	9
	Financial and accounting divisions of two municipalities	July-August 2014 June-July 2014 July-2015	8
	Four local parliamentary bodies in two districts and two municipalities	June-July 2015 July-2016	8
	University academics in a provincial government	June-July 2016 July-2016	6
	Non-government organization activists	June-July 2015 July-2015	4
Total number of interviewees			61

Table II.
Interview and participants

Local governments	Population
Province A (Jawa Island)	33.77 million
District B (Jawa Island)	3 million
District C (Sumatera Island)	411,000
Municipal D (Kalimantan Island)	221,000
Municipal E (Celebes)	335,000

Source: Statistics Indonesia (2014)

Table III.
Local governments under study

Department of Home Affairs issued decrees specifying the accounts and reports to be prepared by local administrations. The rules issued by the Department included Decree No. 13 in 2006 and Decree No. 59 in 2007. In 2010, the Central Government issued a revision of Government Regulation No. 24 in the form of Government Regulation No. 71. Finally, the Department of Home Affairs issued Decree No. 21, which provides rules about the adoption of RBS at the local government level[1]. Thus, adopting the RBS was concerned with more than transforming old accounting systems, by focusing on

Date	Key event
1997-2008	Asian economic crisis hit Indonesia
1998	President Suharto resigned
1999-2001	International financial authorities (e.g. the IMF and the World Bank) provided financial aids to recover Indonesia from the 1997-1988 financial crises and provided policy advice for public sector reforms
2003	The issuance of Law No. 17 on state finance (*Undang-undang keuangan negara*)
2005	The issuance of Government Regulation No. 24 about government accounting standards (*standard akuntansi pemerintahan*)
2006	The issuance of Department of Home Affairs Decree No. 13 about rules for financial management of local government (*pedoman pengelolaan keuangan daerah*)
2007	The issuance of Department of Home Affairs Decree No 59 about the revision of Home Affairs Decree No. 13 issued in 2006
2010	The issuance of Government Regulation No 71 as a revised version of GR 24 issued in 2005 about government accounting standards
2012	The issuance of the Department of Home Affairs Decree No 21 for local governments about rules for financial management of local government (*pedoman pengelolaan keuangan daerah*)

Table IV. Key events and documents in the adoption of the RBS system

performance, decision-making, improved transparency and improved accountability. The RBS signaled a shift to improvements in managerial practice and to eliminate corruption in the public sector. Given this background, this next section contextualizes the adoption of RBS in Indonesia.

4.2 The driving forces of the reporting system change

This section identifies social, economic and political forces that prompted the Indonesian government to introduce RBS in the Indonesian public sector at central and local levels.

4.2.1 National level. Law 17, issued in 2003, required the adoption of RBS as part of wider public sector reforms. These reforms responded to the Asian financial crisis. A former senior official in the Department of Finance states:

> Recent [public sector accounting] reforms in that area are part and the consequence of broader economic reforms (Interview 4, 5/2-2007).

A national parliamentary member acknowledged the impact of the post-Suharto period on the introduction of the accounting system:

> It seemed to me no government affairs included the way the government should report its accounts and were not the subject of total reforms at that time. So I think the reforms also significantly drove this [the adoption of RBS] to make the government perform better in all matters. That was what people wanted, a better government, better management of all governance matters (Interviewee 5, 7/4-2014).

Interviewee 5 ascribes the driver of the changes to the Indonesian people seeking better government. However, this appears at odds with our other interviewees, who acknowledge the influence of the international financial institutions. However, these comments reflect that the movement to implement RBS was driven principally by economic factors. RBS was presented as essential to Government efforts to improve external financial reporting and management accounting systems (budgeting, evaluation and asset management) of the Indonesian public sector. As Nasution (2009) argues, Law 17 incorporated broader economic and structural adjustments concerning finance, planning, budgeting and audit policies in the public sector.

Two senior officials in the Department of Finance suggest that the adoption of RBS was central to improving the quality of decision-making and the efficiency of resource use within the public sector, illustrating a desire to empower the role of accounting for managerial purposes:

> We expected at the time [during the passing of Law 17] that this new system [RBS] will help public sector managers make a better decision in setting the budgets and evaluating the performance of government organizations. As a result, we want better use of resources (Interviewee 3, 8/2/2015).

These comments were further supported by the head of the research and development division, a former General Secretary of the Supreme Audit Agency and a top financial official from the Department of Home Affairs. However, some interviewees focus on the power of the World Bank in driving Indonesian policymakers to adopt the RBS and its impacts upon reporting and management accounting systems. The former General Secretary states:

> In a meeting attended by key senior officials from numerous national government departments, the three guys from the World Bank exactly told us that the country's public sector could only be managed by adopting the new reporting system [RBS] as the only way to accurately measure government assets and evaluate the government programs. Such an argument smoothly went to the Parliament. The rest is reflected in Law 17 (Interviewee 9, 13/2/2016).

Thus, at the national level, this suggests that normative isomorphism was the underlying rationale for the government's decision to adopt BRB as the key player who included in the policymaking of the RBS believe that RBS will helps the Indonesian government to accurately measure government assets and how government programs are valued. At the same time that underlying these changes were the active role played by international financial agencies in driving the structural adjustment reform agenda. This reflects Dillard *et al.* (2004) model where economic (norm) reasons are used by powerful groups at the economic and political level to pressure decisions, before the adoption of new norms and standards. The decision to adopt RBS as part of broader structural reform at the national level in Indonesia was driven, rationally, by the pressures that accompanied Indonesia being provided US$40 billion in financial aid and support from the IMF following the Asian financial crisis (Palupi *et al.*, 2011). A report of *The Australian* represents the situation at the time when Indonesia was dependent on the IMF bailout, which required the country to undertake radical economic and financial reforms, noted the body language and relative power positions in a Plate 1:

> The IMF's chief at the time, Michel Camdessus, standing stonily over then President Suharto as the broken strongman signed what he knew to be a dangerous reform program in return for a $US40bn IMF bailout symbolized the apparent triumph of the so-called Washington consensus (The Australian, 2012).

The photo, its caption and subsequent choice indicate the degree of pressure here: "standing over" with its connotations of power; "standing stonily" with its connotations of control and "broken strongman" indicating defeat and subjugation. Thus, adopting RBS, in part, was a "rational" response to the coercive pressure of substantial economic aid. According to an IMF (1999) report, the IMF, World Bank and Asian Development Bank actively involved in reconstructing Indonesia's monetary policies and financial management practices, including budgetary, performance evaluation and financial reporting systems in the public sector. For

Plate 1. IMF's chief, Michel Camdessus standing over President Suharto when the Letter of Intent (LOI) was signed in 2007

example, as a part of a substantive structural adjustment program, the IMF and World Bank instituted a national committee called the Government Financial Management and Revenue Administration Project to accelerate budgeting and financial reforms (World Bank, 2017). This suggests that as Indonesia faced critical economic challenges following the Asian financial crisis, government policies requiring the adoption of public financial practices including RBS were driven by a requirement to comply with IMF, World Bank and Asian Development Bank conditions. A senior official in the Department of Home Affairs confirms this:

> I think the drafting of the [Law 17/2003] was aimed at obeying the IMF (Interviewee 6, 21/3/2014).

Such a comment illustrates that at the national level; the systemic accounting reform was the Indonesian government's response to endogenous concerns from the IMF and World Bank concerning "better" government nationally and locally. At the national level, the Indonesian government formulated RBS to conform. In this case, the institutional environment at the international level interacted with national players to influence changes in the accounting systems for the Indonesian public sector. Thus, in applying the Dillard *et al.* (2004) model, the key drivers in RBS adoption were a combination of exogenous economic and coercive pressures as a means, principally, of securing economic aids and to respond to the Asian financial crisis. Simply, the adoption of RBS constituted a calculative, rational response from the Indonesian government for access to aid promoted by national and international elites. This was subsequently justified in Indonesia as promoting efficient government, effective decision-making and invoking transparency: there were *ex-post facto* justifications.

4.2.2 Local level. Indonesian local governments possess significant decentralized powers (Laws 22 and 29, 1999 and Law 32, 2004) granting relative autonomy to local bodies. However, accounting systems, rules about local government budget formulation, reporting systems, treasury systems and public sector audit frameworks are centrally regulated. In this sense, the adoption of RBS imposed on local authorities, with no consultation, questions the scope of decentralized power. Thus, at the local level, RBS adoption and implementation was not the result of a choice or a decision: it was the need to comply with national government regulations (e.g. Law 17/2003 and Government No. 13/2005). The head of a district administration states:

> We just have to adopt the rules [of the central government]. There is no other choice we can do. (Interviewee 27, 21/9/20015).

RBS was mandated, and local governments had to comply. This situation further reflects that the changes to the accounting system were not driven endogenously or by demands from local stakeholders, but it was implemented in compliance with coercive, exogenous external forces. A senior financial official in a municipality reflects this:

> All local governments, including this municipality, are required by [Law 17/2003] to prepare such a type of report (Interviewee 25, 14/9/2016).

Note the language used: “we have to” and “[we] are required,” which does not illustrate a deep commitment to RBS-reform at normative or rational levels. It illustrates subjugation: we had no choice, we obey the law. The financial manager of a provincial government notes the “coercive” nature of reform:

> It is our legal obligation to use the system [of new accounting rules] issued by the central government (Interviewee 20, 23/9/2015).

All the local government officials that we interviewed reflected this act of coercion. A local government politician stated:

> Technically speaking we do not have any idea what it is [the RBS]. But I can tell you that because it is about reporting and budgetary systems adopted nationally; we just implement what the national laws and regulations say (Interviewee 41, 7/7/2014).

Our interviewees at the local level recognized the merits of RBS, but they all acknowledge that the implementation of RBS was driven by Law 17/2003 issued by the central government. One consultant stated:

> Personally, I believe [RBS] is more informative in disclosing the budgets, reports and other matters related to a local government’s expenditures. But regarding implementation, they have to do as Law 17 [2003] dictates (Interviewee 26, 19/7/2014).

In a similar tone, two NGO activists focused on combatting corruption, recognized the coercive impact of Law 17/2003. One activist argued:

> If the central government believes the [RBS] system to be more informative and better for financial management, then why would local authorities resist adopting the central government rules? (Interviewee 51, 17/7/2014).

Therefore, the obligation to adopt RBS by local authorities emanated from the coercive enactment of Law 17/2003, reinforced by the inclusion of enforcement (penalty) mechanisms. Thus, a different coercive force operates at the local level, as the adoption of RBS by local governments was a response to a legal obligation imposed by the central government. In this, the local government interviewees recognized that the implementation language for RBS stressed the efficiency elements of RBS, but also focused on the decision-making impacts and the need to improve management accountancy practices of local governments.

4.3 Actors involved

4.3.1 National level. At the national level, the IMF, World Bank and Asian Development Bank were dominant in the adoption and implementation of RBS in Indonesia. A former senior official in the Department of Finance notes:

> I would say no [government policy changes in economic and development issues] or the formulation of new laws and regulations in 1998 and 1999 were without the scrutiny of the international bodies (Interviewee, 30,/2/2014).

There is little indication that the adoption of RBS was domestically-driven or public-driven. An Indonesian argues:

> All matters relating to public sector accounting systems are very much the results of policy making process in the hands of national policy-makers. The people like the Department of Finance and other policy-makers were influenced by those from the IMF or other international bodies in formulating this policy. I do not see any aspiration from the public on this matter [Law 17] (Interviewee 26, 1/7/2013).

More concerning was that the committee responsible for the development of the Government Accounting Standards was the lack of public engagement:

> No comment came from the general public, even from NGOs [. . .] not one (Interviewee 15, 22/7/2014).

A national parliamentary member depicts the role of international financial agencies in the reform agenda as a life-giving doctor:

> Our country at the time was like a hospital patient who needs a doctor to make him/her alive. That's it (Interviewee 10, 20/6/2014).

Such a comment illustrates the economic pressures faced by Indonesia and shows the central role of the international financial agencies as the key agents and the most influential group of actors for change. For example, in support of the 2001 public financial reforms, the Asian Development Bank provided technical assistance programs aimed at assisting the Indonesian Government in developing and producing accounting standards and management accounting decision-making models for the public sector (Department of Finance, 2001). Such a fact shows that exogenous actors scoped the accounting reforms for the Indonesian context and this illustrates how external forces controlled the reform agenda. Subsequently, the World Bank provided technical assistance programs in supporting the implementation and integration of RBS in the public sector (Palupi *et al.*, 2011). Table V depicts, for example, six World Bank programs from 2001-2007 in support of public sector financial reform and the adoption of RBS at the local level in Indonesia.

Furthermore, these programs spread a particular international financial hegemony by providing little scope for individuals to interpret their roles within the system, as the agencies designed, taught and implemented RBS. One academic commented:

> It started when the head of IMF, Michael Camdessu forced President Suharto in March 2007 to sign a reform agenda imposed by the IMF as a core condition to receive the IMF bailout. Then it was followed by the reforms programs which affected all economic matters within the Indonesian public sector. This is the root of what we are talking about with [RBS implementation] (Interviewee 54, 1/7/2016).

Nationally the Department of Finance was the dominant domestic actor in the adoption of RBS in the Indonesian public sector. However, due to the scope of oversight, the Department of Finance might be considered the same actor as the international agencies. The IMF required the Department of Finance to formulate new monetary policies, the privatization of state-owned enterprises and the banking sector following the Asian financial crisis (World Bank, 2008). Many new laws were promulgated in 2003-2004, including Law 17/2003, Law No. 1/2004 about the State Treasury (*Perbendaharaan Negara*) and Law No. 15/2004 concerning the audit, management and accountability of State finances. A national parliament member notes this role in drafting Law 17:

> They [the representatives from the Department of Finance] were active in promoting that kind of system [RBS] in numerous hearings held by the Parliament when the law [Law 17] passed in 2003 (Interviewee 31, 4/4/2014).

A former senior official in the Department of Finance explained in detail his role during a parliamentary session in insisting upon the inclusion of Article 30 in Law 17, which required the public sector to use RBS, an accrual-based accounting system:

> In the Parliament hearing that was held to pass the law, I insisted that all central and local government agencies should be required to prepare a set of financial statements which at least include balance sheets, cash flows and notes to financial statements. All ideas I proposed were accepted, and honestly, I am proud of it (Interviewee 1, 6/4/2014).

Such a statement illustrates shows the substantial role of the Department of Finance and key officials in scoping RBS in Indonesia. This policy decision had a profound impact on how RBS was adopted and implemented by the Indonesian public sector and local government. Equally, the Department of Finance dominated the composition of the implementation committee and technical teams that formulated the accrual-based accounting standards in 2005 and 2010 (GR 24/2005, GR 71/2010). The Department of Finance was advised by the World Bank. This means that the Department of Finance, as recipient of World Bank advice, influenced the adoption of Law 17, dominated the policy formulation for implementing Law 17 and dominated the technical formulation of specific accounting systems such as GR 24 and GR 71, which contain the specific accounting standards and procedures to be followed by all governmental organizations including local governments.

In addition, the Department of Home Affairs was active in the implementation of RBS for local governments. The Department issued Decree No. 13 in 2006 and revisions, including Decree No 59 in 2007 and Decree 21 in 2012 concerning financial management for local governments. These decrees provided detailed frameworks and procedures that had to be

Table V. World Bank programs relating to public sector accounting reforms in Indonesia (2001-2007)

No.	The World Bank Project	Recipients
1	Public Expenditure Analysis and Capacity Harmonization (PEACH) Grant to Indonesia BAKTI on Communication and Outreach	*Bursa Kawasan Timur Indonesia* (An Agency for Eastern Indonesia Development)
2	Local Government and Decentralization Project	Department of Finance
3	Initiatives for Local Governance Reform Project	Ministry of Home Affairs
4	Government Financial Management and Revenue Administration Project	Department of Finance
5	Accountancy Development Project	Department of Finance and Department of National Education
6	Scholarships Program for Strengthening Reforming Institutions	Ministry of National Development Planning-(*Bappenas*)

Source: Palupi *et al.* (2011)

followed by local governments in formulating projects, budgets, decision-making and financial reports. One interviewee from a district commented:

> If we talk about financial matters, you must follow the Regulation No. 13 issued by the Department of Home Affairs (Interviewee 31, 27/4/2014).

One committee member involved in the Government Accounting Standards confirms this central role for the two central government agencies:

> It has been standard practice in this country that the two national government departments [finance and home affairs] are the regulatory agencies for financial matters and reporting systems for local governments. For example, the members of this [Government Accounting Standards] Committee was established and funded by the Department of Finance (Interviewee 15, 30/7/2014).

Seen from the modification of the Dillard *et al.* (2004) model at the national level, the international financial agencies and the Departments of Finance and Home Affairs played a leading role in adopting and implementing RBS in Indonesia. However, the IMF, World Bank and Asian Development Bank play the central role, as they required the change, assisted implementation and acted as advisers throughout implementation.

4.3.2 Local level. Law 17, GR No. 24, and Decrees No. 59, 71 and 21 not only changed the nature of government reports but also outlined specific techniques required to be used by local governments in preparing their budgets. This also influenced how a particular capital investment decision should be made. However, what transpired was a chronic shortage of qualified accountants at the local government level. Thus, local government reports and accounting information for decisions were prepared by local accounting firms, which presented an opportunity for non-governmental actors to be involved in the institutionalization of RBS. A senior financial official in a district administration stated:

> Ideally, this district needs at least 30 accounting staff, but we only have four personnel. Thus, we have to outsource our accounting jobs to accounting firms or local consultants (Interviewee 21, 15/9/2009) (Interviewee 11, 14/7/2014).

Given the lack of qualified and experienced public sector accountants at the local government level, most local government bodies outsourced accounting and financial functions to professionals. A senior official in Department of Finance commented:

> The main problem [with RBS] in this country is the lack of people who are technically able to prepare these reports. As such, the only thing local governments can do is to temporarily hire local consultants or accounting firms to prepare their reports (Interviewee 15,/4/2014).

Two local accounting academics and three consultants reinforced that the lack of qualified and skilled accountants posed a challenge to implementing RBS: there was a capacity problem. One academic argued:

> It is impossible right now for districts or municipalities to adopt the new accounting system without hiring accountants or outsourcing the accounting function to these people (Interviewee 26, 1/7/2014).

That capacity problem drew the attention of the State Audit Agency (BPK, 2016). In Province A, for example, there were only eight public sector accountants, which is far below the 45 accountants required by the provincial authority to adopt and implement RBS. District B presented a similar situation where a local government is requiring 35 accountants, had a total of four employed accountants in 2014. Such a situation also occurs on other local governments. This deficiency is a national problem for Indonesia, as Table VI demonstrates existing numbers of accountants working in 2014 against the required number of accountants to implement RBS in the local government under study. The State Audit and Supervisory Agency (*Badan Pemeriksa dan Pengawasan Keuangan Pemerintah*) reported that local governments faced a lack of at least 25,000 accountants in 2013 (Suara Merdeka, 2013). Thus, Indonesian local governments are neither an *Active Actor* nor a *Late Adopter* as Dillard *et al.* (2004) model suggested. Rather, they are the passive adopter, due to the legal obligations to adopt accounting rules imposed by central government. These political and legal situations provide limited roles for local authorities to mobilize their ideas and aspirations as to what accounting and budgeting systems should be used by local governments. Next section will explore this phenomenon in more details

4.4 Institutional impacts at local government level

At the organizational level, we find three primary features, which highlight the institutional implications of RBS adoption.

First, there is no doubt, the RBS, which requires local governments to produce seven types of reports, compared to the previous system has increased the number and types of reports of local governments. Our interviewees argue that in many ways RBS facilitates local governments to be more transparent. Two interviewees stated:

> Obviously, the new reporting and budgetary requires local government to prepare much more types of reports (Interviewee 29, 7/6-2016).

> The new system in a way pushes to the local government to be more transparent (Interviewee 9, 19/3/2016).

Most of our interviewees across local governments also support these comments.

Second, under RBS, local governments are not only required to present business-styles reports such as balance sheets and cash flow statements but they also must prepare their budgets in line with the Government Regulation 71 issued in 2010. This regulation highlights detailed rules and names of budget accounts that should be adopted by local governments in setting their budgets. The governor of Province A states:

> The new reporting system precisely highlights not only the types of reports but also the nature of our budgets (Interviewee 31, 4/2016).

That statement not only demonstrates a technical aspect of RBS but it also shows how RBS limits opportunities for provincial and lower level of local authorities to set up a budget or program, which is in line with the wishes of local citizens. Thus, most of our interviewees suggest that the RBS challenges the spirit of democratic movements of post-Suharto governments to ensure that local citizens are given an opportunity to voice their wishes in the decision-making process of policies, programs, and budgets of local governments. For

Table VI. Number of accountants as local government officials in 2014

Local government	No. of accountants employed	Required no. of accountants
Province A	8 people	45 people
District B	4 people	35 people
District C	6 people	41 people
Municipal D	10 people	66 people
Municipal E	8 people	62 people

example, an interviewee indicates her disappointment as the result of the central government decision to reject their budgets. 4

> I can say for some reasons this policy [RBS] is against the autonomy law (Interviewee 19, 21/5/2016).

Finally, while the policymaking of RBS provided greater roles for international and national players, local accounting consultants and academics also have significant practical roles in the preparation of budgets and reports of local governments. The lack of qualified accountants working at the local level has created opportunities for accounting firms and academics to actively provide their professional service by providing training and technical assistance in preparing local government reports. One interviewee puts her view on this matter.

> In recent years, many consultations and training programs were carried out to train local officials. Such programs did not exist prior to the adoption of the new accounting rules. I know the trainers are academics and consulting firms (Interviewee 30, 1/2/2016).

Thus, the lack of qualified accountants created opportunities for accounting firms and academics to support local governments by providing training and technical assistance in preparing reports. A participant puts her view on this matter.

> In recent years, many consultations and training programs were carried out to train local officials. Such programs did not exist before the adoption of the new accounting rules. I know the trainers are academics and consulting firms (Interviewee 25, 7/5/2016).

Such a comment shows increasingly active roles of consultants in the process of NPM reforms in Indonesian government, a new approach for explaining the emergence and diffusion of NPM ideas at the organizational level. This is quite different from the UK, for example, the imminent role of consultants was primary appear at the national level. This means, for Indonesian context, the mobilization of NPM ideas at local government level has not only effectively changed the nature and types of reporting and budgetary practice; but it also has limited the traditional roles of governments institutions in the formulation process of budgets, reporting and accountability practices of government agencies. In other words, the creation of a new institution such as RBS has brought radical changes in rules, but also practices and roles of actors within the public sector. Consequently, Table VII constitutes a summary of our empirical analysis, drawing on our findings based on the Dillard *et al.* (2004) model.

Institutional levels	Driving forces	Key actors	Key features
National level	Coercive international pressures Normative –rational pressures	International financial authorities (including the IMF, World Bank, Asian Development Bank, European Union, Australia) Central Government Departments (the Department of Finance, Department of Home Affairs)	Dominant roles of international and national actors
Local level	Coercive national pressures	Local academic-consultants Central Government Agencies International financial authorities	Greater roles of accountants and academics Limited ability of BRS in achieving its objectives

Table VII.
The application of Dillard *et al.* (2004) adapted model in informing the study

5. Conclusions and implications

Driven by the wish to critically investigate the policymaking process and critical features relating to the adoption of a new reporting and bugdetary system in the Indonesian public sector, this study used a case study approach as a means to provide a deeper understanding about the phenomena under investigation. This paper presents three conclusions and several implications. First, the adaption of the Dillard *et al.* (2004) model is useful to identify and understand significant pressures and actors in the policymaking and implementation of RBS in the Indonesian public sector. At the national level there were substantial economic and coercive pressures from international financial agencies to implement RBS. Despite some normative evidence existing to justify the adoption, this was of lesser importance to the economic need to maintain access to international financial aid. The impact of the Asian financial crisis rendered Indonesia susceptible to the power of international financial agencies (the IMF, World Bank and Asian Development Bank) to impose structural adjustment as the "price" for foreign aid. Consequently, the national government was "coerced" by a need for economic stimulus into formulating laws, regulations and reporting rules supporting the adoption of RBS. Similarly, the adoption of RBS at the local government level is driven coercively through legal compliance imposed by the Indonesian central government. This illustrates that different actors involved in the institutionalization of accounting and budgeting systems can have different motivations and interests in pursuing such systems.

In terms of actors, the key people who involved in the policymaking of RBS and its adoption in Indonesia at the national level are international financial agencies and two central government agencies (the Department of Finance and Department of Home Affairs) played a dominant role in the policy implementation of RBS at the national level. The Department of Finance influenced the policy formulation process of Law 17 concerning state finance in 2003 and promulgated the subsequent rules that shaped government accounting standards in 2005, while the Department of Home Affairs developed RBS rules (in 2006, 2007 and 2012) that had to be adopted by local governments. Second, at the local level, non-government actors, such as accountants and other types of consultants played a significant role in implementing BRBS, as there was a chronic shortage of public sector accountants with technical expertise. As a result, local governments, as well as local citizens generally in Indonesia are *Passive Adopters* of RBS. In other words, as our study shows how international actors are positioned as the most dominating actors, which encompass national and local levels in mobilizing the policymaking and implementation processes of a new reporting and budgeting system in an emerging economy, Indonesia.

Third, we find three features, which highlight the institutional implications of the RBS adoption at the local government level. The RBS system stimulates local governments to provide more reports, which in many cases improve transparency on the one hand; on the contrary, it has undermined the autonomy law (Law 32/2004), which grants greater rights and roles of local authorities in the planning and management of local governments. RBS in this case only allows local government to formulate their budgets, which are in line with the RBS template. This means, for Indonesian context, the mobilization of NPM ideas at local government level has not only effectively changed the nature and types of reporting and budgetary practice; but it also has limited the traditional roles of governments institutions in the formulation process of budgeting, reporting and accountability practices of government entities. In other words, the creation of a new institution such as RBS has brought radical changes in rules but also in practice and roles of actors within the public sector. What should be striking in this conversation is the lack of reflection on social demands about RBS from the four local governments at the organizational field. In this regard, the RBS adoption by local administrations re-emphasizes Crawford's (2003) assessment concerning the lack of roles played by local actors in the economic development and structural reforms in Indonesia during the post-Suharto era.

This study contributes to institutional theory by adapting the Dillard *et al.* (2004) in informing the policymaking process, actors and the impact surrounding the RBS adoption in an emerging economy, Indonesia. This study also applies the model in informing how the RBS system internalized within organizations. At the practical level, this study reminds policymakers across emerging economies that the failing to involve the public and local government policy-makers in the policy formulation and implementation of a new accounting system may result in costly and significant outsourcing costs for accounting reports to local governments. This is not something stressed by international financial agencies pursuing RBS adoption. We would encourage policymakers to cost the impact of structural adjustment holistically, and we would encourage greater consultation with local governments and the democratic public concerning the adoption of significant accounting reform.

This study also has some limitations. Our findings are specific to Indonesia and should be understood in the institutional and organizational setting of this study. Further studies should extend our study by asking some critical questions such as:

- how RBS based reports are used for decision making by local parliamentary members, senior officials or other stakeholders of local governments; and
- whether the adoption of RBS brings managerial or economic benefits for local governments.

Our suggestions also include:

- the application of our adaption of the Dillard *et al.* (2004) model to other accounting changes in emerging economies;
- a deeper, comparative study between different countries might yield interesting results concerning processes and challenges in adopting and implementing new accounting institutions; and finally
- there is an opportunity for substantive critical work in raising questions about the real cost of implementing RBS, given the cost of training, support, advice, consultants, and outsourcing are significant, and how RBS-based reports have been used for decision-making by public sector organizations.

Note

1. In the Indonesian local governments include provincial, districts and municipalities.

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