

THE USE OF INSTITUTIONAL THEORY IN UNDERSTANDING IMPLEMENTATION OF PUBLIC SECTOR ACCRUAL BASED ACCOUNTING STANDARDS (CASE STUDY ON FINANCIAL AND DEVELOPMENT SUPERVISORY BOARD IN INDONESIA)

Irvan Normansyah¹, Maya Cicilia Kamil² and Wiwi Idawati³

Abstract: *This study was an attempt to understand how a new rule i.e. the accrual basis of accounting standards (accrual-based accounting standard, PP No. 71/ 2010) implemented at the BPKP (Badan Pengawasan Keuangan dan Pembangunan/ Financial and Development Supervisory Board) as public sector institution. This study was conducted within the framework of qualitative research case study in the background behind the context of the implementation of accrual accounting system with two perspectives of institutional theory: isomorphism (DiMaggio and Powell, 1983) at the field organization level, and the process of institutionalization from Burns and Scapens (2000) at the agency level (firm level). The purpose of this study is to find how the new accounting system was adopted and institutionalized in the institution.*

The research result shows that BPKP adopted accrual-based accounting system primarily due to coercive pressures, i.e. the rules that must be followed in the form PP No. 71/ 2010. This is supported by the desire to be used as a benchmark for similar organizations. In addition, there is also mimetic pressures, by imitating other countries considered to be more successful in applying a more efficient, effective, productive, transparent, and accountable accounting system. Normative pressures appeared in professional support from BPKP officials that encourage the use of accrual-based accounting system within the organization. Institutionalization and internalization of PPNo. 71/2010 is strongly supported by: Commitment of the leaders, indicated by the policies that support the adoption of accrual-based accounting system, the motivation of employees, formed by the various and repeated changes along the BPKP lifetime that make the employee more resilient to changes, and the working culture as well as the learning culture. The implementation also supported by the

1. Sekolah Tinggi Ilmu Ekonomi Indonesia, Email: irvan@stei.ac.id

2. Sekolah Tinggi Ilmu Ekonomi Indonesia, Email: maya_kamil@yahoo.com

3. Sekolah Tinggi Ilmu Ekonomi Indonesia, Email: wiwiidawati@ymail.com

facilities and infrastructures, such as the availability of a vast and fast network, training and education facilities and information systems that support knowledge management throughout the institutions.

Keyword: *Institutional Theory, Public Sector Accrual Based Accounting Standards*

INTRODUCTION

Political reform and the shift of power tends to affect the accounting and management systems in the public sector (Mimba et al., 2007). That influence can be felt also in developing countries, including Indonesia. Along with many other countries, Indonesia pursued a strategy of institutional, organizational and managerial change, in order to meet the increasing demands of financial accountability, efficiency, and effectivity. These changes transform bureaucratic, rigid and hierarchical traditional public sector institutions into a flexible and more responsive to global market demand. The public sector management changes were then known as the New Public Management (NPM).

Drawing from the philosophy of NPM, the Indonesian government strive to improve the quality of government reports following the same pattern as other countries which apply commercial accounting systems in government institutions (Sharma dan Lawrence, 2009). The challenge in implementing public sector accounting practices is how to balance the cost incurred for its implementation, to be less expensive. The high cost may constrain or delay the rate of adoption, so that the transition from the cash basis accounting system to the accrual basis will not happen quickly and completely (Christiaens dan Rommel, 2008; Ellwood, 2007). Technically, ignoring these problems will lead to improvidence, because the application of commercial accounting system is time-consuming and costly (Van Peurseem & Pratt 1998). The experience of implementation in New Zealand (IFAC, 1996), and Nepal (Adhikari dan Mellemsvik, 2011; Timoshenko, 2010), shows that government commitment and understanding about the benefit of accrual accounting in improving the quality of a decision, would force decision-makers to require the use of information from the new accounting system.

Reform of government accounting is often the first step and that is why reform of the bureaucracy can be considered as the necessary conditions and prerequisites for the success of other government reforms under NPM transformation, such as organizational and managerial reform (Christiaens, et al., 2003). Therefore, an effective and successful implementation of accounting reforms makes an important and dominant role in the implementation and success of practices and other NPM techniques in public sector organizations.

The Indonesian 1998 reform requires transparency in many aspects. The first step to the accounting reforms carried out by setting government accounting

standards in the form of Government Regulation (PP) No. 24/2005 which regulates the use of Cash towards Accrual, that later supplemented by PP 71/2010 to government accounting standards (SAP) full accrual basis. With the release of this regulation, the government have to change the presentation of cash towards accrual-based financial statements formerly used towards the full accrual basis. However, the use of accrual accounting does not automatically give the desired results. The case in developing countries is mostly related to institutional and technical issues that have the potential to interfere with the government's efforts to reform government accounting and improve efficiency (Nor-Aziah and Scapens, 2007; Siti-Nabiha, 2005). In developing countries, the problems encountered include the lack of technical capabilities, lack of use of accounting information for managerial purposes, as well as outdated practices and managerial culture (Mimba et al. 2007; Rahaman 2009; Sharma & Lawrence 2009).

In order to provide maximum results, the implementation of the new rules i.e. PP number 71/ 2010 needs to be institutionalized, and becomes an integral part of the activities or daily routine. In many organizations, management and accounting systems practices mostly in the form of stable rules and routines. Therefore, the theory of institutionalization from Burns and Scapens (2000) is used to understand the implementation of the concept of a new accounting rule change, which not only emphasizes stability and routines embedded in the behavior of the system and practice of the organization, but also how the rules and routines are institutionalized, using the process as part of the stabilization of accrual-based accounting system implementation. The theory from Burns and Scapens's framework is used to understand how the rules become routinized, and then evaluated, set into the new rules, re-routinized, and finally, institutionalized.

Adoption of new regulations and the attempt to institutionalize it into a routine, formed the interrelation dynamics that explore the changes in management accounting system within the organization as well as in the wider social and institutional context where the system operates.

BPKP (*Badan Pengawasan Keuangan dan Pembangunan/Financial and Development Supervisory Board*) as part of the government also experienced the impact of the new accrual-based accounting system. Their role as consultant and quality assurance with preventive approach, require them to assist other government institutions/ local governments to generate more transparent financial statements, improve their understanding of the financial management, improve compliance with laws and regulations, and improve the quality of financial reporting and governance, to achieve unqualified (WTP) opinion from the BPK (Indonesian Audit Board). With this disposition, BPKP is a unique institution to observe, to gain understanding of how they manage to implement and institutionalize the new regulation internally as well as externally in order to assist others to master the new regulation.

RESEARCH OBJECTIVE AND PRIOR LITERATURE

This study examines the institutionalization of accrual based accounting system in one government institution of Indonesian public sector. The purpose of this study is to see how an accounting system was adopted by government agencies in Indonesia, particularly in the BPKP, and to understand how the institution internalize and institutionalize the new accounting system.

By acknowledging and discussing these issues, this study will not only contribute to the understanding about the role of accounting in certain institutions but also how it is implemented as studied by Ribeiro and Scapens (2006), Siti Nabihah and Scapens (2006), and Harun et.al. (2012).

Former research in Indonesia which uses institutional theory to examine the implementation of accrual-based accounting system performed by Harun (2012). He examined the role of actors in institutionalizing a new accrual system. The study use Institutionalization theory to provide the broad theoretical framework, and the Dambrin et al.'s (2007) institutionalization process model (IPM), particularizes the process by which institutionalization of an accrual based accounting standard occurs. Scott's pillars of legitimization also inform rationales behind practice. This study reveals how the decision of the Indonesian Government to adopt accrual accounting in 2003 was part of greater political and economic reforms following the financial and political crisis that occurred in 1998. Idealized in the early 1980s by technocrats in the Ministry of Finance, accrual accounting practices were deferred and then enabled by a series of national political events. Their ultimate internalization into the municipality was led by new legislation but also influenced by the habits and histories of the Indonesian local context and was as a result decoupled in many respects from ideals, discourses and techniques established for it.

Djamhuri (2009), also studied accounting reform in a local government in East Java, using New Institutional Sociology (NIS) from DiMaggio & Powell as well as the processual approach by Pettigrew (1997) to understand how the performance based budgeting and accrual accounting have been institutionalized in the region with its technical and socio-cultural characteristics. Similar to Harun's conclusion, he 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 region's socio-cultural realities. Though the new systems have challenged existing institutions in the region, however, due to insufficient quantity and quality of the region'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 the region.

Other research by Ter Bogt (2007) used new public management (NPM) to examine changes made to management accounting systems in Dutch local government. The Burns dan Scapens (2000) institutional approach that is used in his paper focuses on changes in rules, routines and institutions. The institutionalist approach of the accounting changes in Dutch local government suggests that politicians and professional managers in local government often were critical about the reasons for and the effects of the changes. But over the longer run, gradually some effects may have been realized that have considerably changed their culture and increased their citizen and result-orientedness. Also in Malaysia, Norhayati and Siti-Nabiha (2009) studied the institutionalization process of the performance management system (PMS) in a Malaysian government-linked company (GLC). They found that despite attempts to link the organisational activities to the system through the business operating plan, the data reveal that the PMS-related activities have somehow been viewed as a routine mechanism for appraising the employees' performances and become decoupled from the organisational activities. The intention to institutionalize a new performance measurement system cannot be realised if there is a lack of (external) pressure, and they point to isomorphic and mimetic influences that lead to ceremonial adoption. Thus, the new PMS did not really change the way organisational members view and do things in the organisation.

From those studies, it can be concluded that a new system can only be applied properly when it can be institutionalized and internalized as part of the company routine. There are several aspects that may affect the process of institutionalization such as habit and history of the local context, that make institutionalization decoupled from the intended ideals, discourses and techniques (Harun, 2012); other aspects as lack of human resources, rigid bureaucratic culture, and cultural Javanese concepts such as *pamong praja* dan *pangreh praja* (Djamhuri, 2009) is consistent with the findings in the Netherlands (Ter Bogt, 2007) that social structures affect the process of institutionalization of the local government organization. An understanding of the institutional process can also be found in Malaysia (Norhayati and Siti-Nabiha, 2009), where the adoption of new practices may be caused by isomorphic pressure to imitate other organizations in the same neighborhood, which led to the use of ceremonial adoption of accounting practices.

THEORETICAL FRAMEWORK

The theoretical framework for this study use institutional theory to provide a comprehensive conceptual basis for examining accounting practices within the organization. Referring to Scott (2008), institutional theory is used to describe the actions and decision-making in public organizations. This study use institutional isomorphism change theory as described by DiMagio and Powell (1983). They

argue that organizations compete not just for resources and customers, but for political power and institutional legitimacy, for social as well as economic fitness. As a consequence, an organization that promotes the legitimacy will have a tendency to adapt to the external expectations or social expectations where the organization is located. Organizations are driven to incorporate the practices and procedures defined by prevailing rationalized concepts of organizational work and institutionalized in society. By doing so, they increase their legitimacy and their survival prospects, independent of the immediate efficacy of the acquired practices and procedures (Meyer and Rowan, 1977). Public organizations seeking for legitimacy will tend to have similarity or isomorphism with other public organizations (DiMaggio and Powell, 1983).

DiMaggio and Powell (1983) identified three mechanisms which institutional isomorphic change occurs, each with its own antecedents: 1) coercive isomorphism that stems from political influence and the problem of legitimacy; 2) mimetic isomorphism resulting from standard responses to uncertainty; and 3) normative isomorphism, associated with professionalization. This typology is an analytic one: the types are not always empirically distinct.

Coercive isomorphism results from both formal and informal pressures exerted on organizations by other organizations upon which they are dependent and by cultural expectations in the society within which organizations function. (DiMaggio dan Powell, 1983). Such pressure is given through resource requirements, regulations, laws and executive regulations. Coercive isomorphism can also be described as the government's influence on the organization through the enactment of legislation.

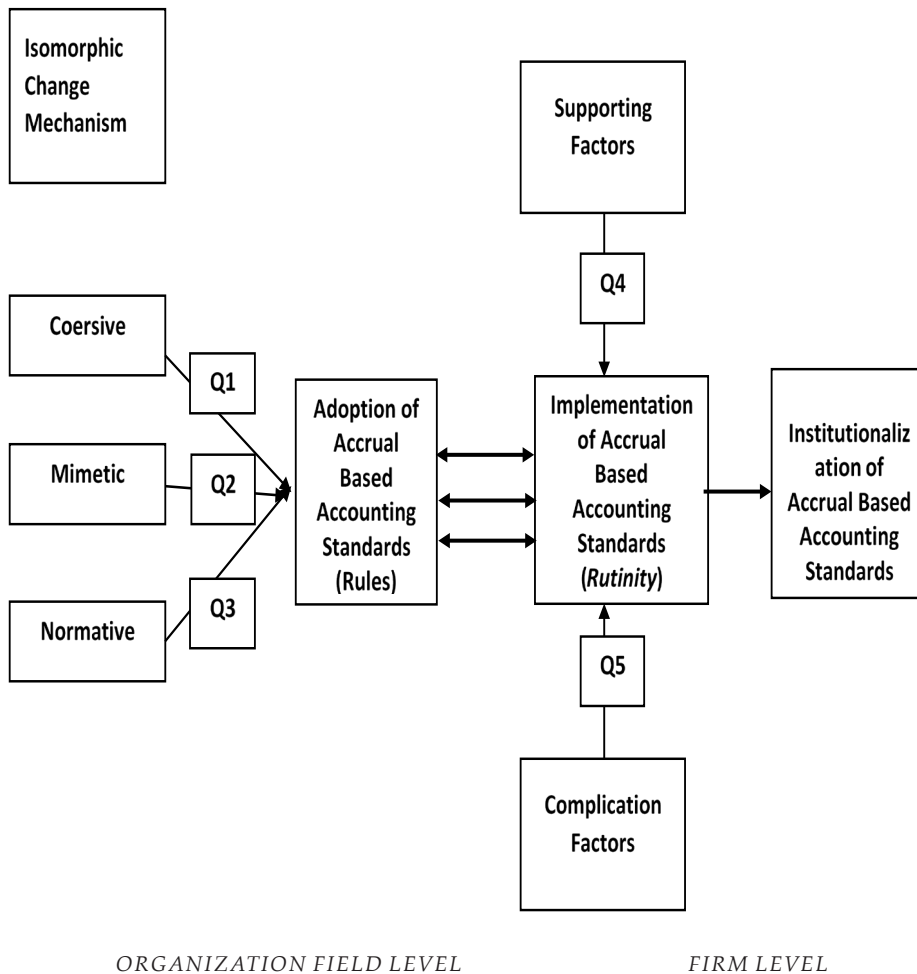
Mimetic isomorphism is the power that drives organizations to model themselves on other organizations that are considered more successful. Organizations tend to adopt a way that is considered "common", especially when there is high uncertainty about the correct way to do things (Scott, 1995). According to DiMaggio and Powell (1983), when organizational technologies are poorly understood (March and Olsen, 1976), when goals are ambiguous, or when the environment creates symbolic uncertainty, organizations may model themselves on other organizations. More generally, the wider the population of personnel employed by, or customers served by, an organization, the stronger the pressure felt by the organization to provide the programs and services offered by other organizations. Thus, either a skilled labor force or a broad customer base may encourage mimetic isomorphism. Further Tuttle dan Dillard (2007) posit that mimetic pressures include benchmarking and identifying of best practices and leading players in the field.

A third source of isomorphic organizational change is normative pressure and stems primarily from professionalization. When organizations resemble each other due to their length in applying the same norms and values in its environment, it will encourage normative isomorphism (DiMaggio and Powell, 1983). All three of these mechanisms together or individually may affect the adoption of a policy or regulation.

The second theory used in this study to understand how the institution internalize and institutionalize the new accounting system, derived from Burns and Scapens (2000) institutional framework. The framework explores the complex and ongoing relationship between actions and institutions, and demonstrates the importance of organizational routines and institutions in shaping the processes of management accounting change. Burns and Scapens (2000) outlined a framework describing the process of institutionalization. The first process, (a) *encoding*, where the existing routines will embody (i.e. encode) the prevailing institutional principles, and will shape new rules, which in turn will lead to the formation and/or reformation of the ongoing routines. The second process (b), *enacting*, involves the actors enacting the routines (and rules) which encode the institutional principles. This process of enactment may involve conscious choice, but will more usually result from reflexive monitoring and the application of tacit knowledge about how things are done. This enactment of rules and routines may be subject to resistance, especially if the rules and routines challenge existing meanings and values, and actors have sufficient resources of power to intervene in this process. The third process (c), *reproduction*, takes place as repeated behaviour leads to a reproduction of the routines. The final process (d), *institutionalization*, the institutionalization of rules and routines which have been reproduced through the behaviour of the individual actors. This involves a disassociation of the patterns of behaviour from their particular historical circumstances, so that the rules and routines take on a normative and factual quality, which obscures their relationship with the interests of the different actors.

The first theory worked in the *organization field level*, explaining how how an accounting system was adopted by government agencies in Indonesia, particularly at the BPKP in the wider social and institutional context where the system operates, through the isomorphism mechanism (DiMaggio and Powell, 1983). The second idea worked in the *firm level*, how the rules and processed into rutinity and institutionalized, using Burns and Scapens (2000) institutionalization process. Both explore the interrelations between changes in management accounting within the organizations as well as the wider social and institutional context where the system operates. Figure1 explains the dynamics of both aspect of institutionalization.

Figure 1. Theoretical Framework



Public organizations that tend to gain legitimation usually have isomorphism with other public organisations (DiMaggio dan Powell, 1983). The first mechanism of isomorphism is coercive force. According to this mechanism, the coercive force from outside the institutions such as the government or donor countries as their user of information and services will make an important role to the adoption of accrual based accounting standard. In his research, Noormansyah (2010) found out several factors that inflict changes from coersive isomorphism such as social, economic and politic, legitimation, accounting standard, etc. From the coersive isomorphism view point, the first Question (Q1) is “how external factors such as coersive isomorphic mechanism motivates the adoption of accrual based accounting standard?”

The second isomorphic mechanism concerning the mimicking of successful practices that have been adopted and implemented by other organisations that are perceived to be successful. Mimetic isomorphic mechanisms involve the replication of current practices as modelling behavior, where the said organization attempts to imitate the mechanisms employed by another organization which is perceived as successful within a domain. Noormansyah (2010) found the factors as a need to mimicked other organization to be legitimate and successful. From the mimetic isomorphic mechanism view point, the second question (Q2) is "How the mimetic isomorphic mechanism will force the organization to imitate certain behaviors and practices?"

Normative isomorphism is the third influence mechanism related to professionalism. Professionalism is the primary basis for this influence mechanism, as well as organisation strategic orientation, top management culture, and organisation characteristics, such as the finding in Noormansyah (2010) study. From the normative isomorphism view point, the third question (Q3) is "How the force of professional affect the adoption of accrual based accounting standard?"

Though the force that based institutionalization process emerge as a consequence of the quest for social legitimation and isomorphism, the change process by itself were conducted by micro activities, process and rutinity within the organization that may be accepted or rejected to be institutionalized (Barley dan Tolbert, 1997; Burns dan Scapens, 2000).

In most organization the management accounting system and practices usually are in the form of stable regulation and rutinity within wider aspects of organization. So, as to involve this other aspect, this research uses other theory beside institutional isomorphism to study institutionalization in a broader perspective. The theory used is institutional theory by Burns and Scapens to develop a framework in shaping the concept of management accounting change, which not only emphasized stability and routines embedded in the behavior of the system and practice of the organization. So, the next question is "what kind of drive factors that form the rutinity?", and last but not least question (Q5) is "what kind of factors are becoming an obstruction to the formation of routines?". The last two questions will answer the factors that will ultimately affect the institutionalization of accrual-based accounting standard application.

RESEARCH METHOD

This study was conducted within the framework of qualitative research case study in the background behind the context of the implementation of accrual accounting system with two perspectives of institutional theory: isomorphism (DiMaggio and Powell, 1983) at the field organization level, and the process of institutionalization

from Burns and Scapens (2000) at the agency level (firm level). Case study research is used because it allows for an in-depth investigation of the subjects covered. Follow-up questions can be immediately solicited so that a comprehensive understanding can be achieved.

BPKP has partially implemented the accrual based accounting system since 2003 by using cash towards accrual accounting system and gradually moved to accrual basis. Initially the move to change was induced by the 1998 monetary crisis that forces the government of Indonesia to reform their government system. Institutional theory is used to understand how the changes is institutionalized while drawing conclusions from the individual's perception, experiences, and other relevant contextual factors about the change (DiMaggio dan Powell, 1983; Burns dan Scapens, 2000). The research will disclose the technical aspect, and the reason behind the adoption, the impact, and the institutionalization process. The theory was used here as a stepping stone towards preparing the description and understanding of individuals or groups being studied. Exploratory and descriptive research carried out in this organization may not cover the entire issues or relevant stakeholders, and does not produce statistical or general evidence; however, it still is able to create a general idea as a focus for further research.

The method chosen was self-reported data by individual respondents based on availability and willingness of respondents to participate at each target individuals. Sources of data in this study consisted of primary data, i.e. data obtained directly from the respondent, in the form of answers to the interview questions with content in the form of opinions or perceptions of individual respondents, as well as secondary data drawn from the articles, documents and public records available.

Respondents in this study were employees from BPKP, ranging from administrator to middle/top level management or policy makers involved in the application of the new standard in the head office, as well as auditors that assisted the implementation of accrual based accounting standard in the local government. Interviews were conducted to obtain direct data or information from the respondents regarding their perception towards the implementation of the new accrual based accounting standard. Most of the interviews were done individually, and whenever possible, some was carried out using *Focus Group Discussion*. A semi structured interview was used as a *Guiding Questions*, that will be extended with follow-up questions immediately so that a comprehensive understanding can be achieved. The line of questions begins with open-ended question that evolved into more specific questions that allowed the researchers to follow a particularly interesting line of discussion (Poerwandari, 2008).

The research framework was divided into two level, which are *organization field level* and *firm level*, that made data collecting also divided into two methods. For

organization field level, data collected from documentation and articles related to adoption of accrual based accounting in public sector or government. Information was collected from secondary data such as publications, internal documents, and articles that can be triangulated with the interview result from the actors involved in the adoption of the system, in this case the SAP Committee. For *firm level*, a series of semi-structured interview questions were conducted to explore how the informant /interviewee, in this case BPKP personnel, expressed their thoughts and role during the implementation process of accrual-based accounting system in the public sector. Upon completion of the interview, the results were transcribed. During this process, the information received was evaluated and classified in the form of matrixes, thus any discrepancies among the respondents were noted. Documental research such as financial regulations, government regulations, guidelines for accounting systems, articles and publications as well as other financial documents is used to triangulate the findings from interviews and observations. For this research, triangulation method used was from sources and techniques triangulation.

FINDINGS AND DISCUSSION

The first concept will explain the adoption of accrual-based accounting standard (SAP) in a wider scope of organization level through the mechanism of isomorphism.

Coercive pressure is applied from outside the organization. Initiated by pressures from public requisition for more transparent and accountable public report, and demand from international organizations such as

IMF, *Organisation for Economic Cooperation and Development (OECD)*, dan *World Bank* for broader political, economic, and public sector reforms and more transparency (Halim, 2012). As part of the government, BPKP was promoted to report their operation with the new accounting system (SAP). Although most employee still not feel the benefits from these changes, BPKP as part of the central government adopt accrual-based SAP as a result of formal and informal pressure received from other organizations that have more authorities. The influence of external pressures on the financial reporting at BPKP appears in the form of laws or regulations that became the driving force for the implementation of transparent financial reporting within the agency. The attitude to implement the required systems is caused by the need to perform well in the eyes of society as the tendency to acquire or improve legitimacy (*legitimate coercion*) (Scott, 1987). The role as benchmark for assurance and consulting to other government institutions, forced BPKP to be seen as top performer, and as a result they only emphasize the positif aspects in order to look good from the outside.

The mimetic pressures derives from the central government perceiving the private sectors as more successful by implementing accrual based system of accounting report that give more transparent information. On the other hand the need to use accrual accounting may also been motivated by a desire to follow the same practice that was introduced in other developed countries such as Australia and New Zealand. In order to find a comparison to the way of how the system being implemented to strengthen the implementation of accrual accounting, BPKP programmed a benchmarking visits to neighboring country (New Zealand) to observe the implementation of accounting systems in the public sector. By studying the use of accounting systems in other countries, and in the private sector, BPKP hopes to implement accrual-based SAP effectively. BPKP really understand the need to keep information/reports in a transparent manner, because that's the basis of the assessment. However, even if accounting practices applied in the private sector has many advantages, not all is necessarily appropriate in the public sector. In this way, BPKP adopt the system with a few modification and with internal policies, the application of the new system can be more effective. Although there are still reluctance to move from the comfort zone towards a new standards, finally the adoption of accrual accounting based reporting (SAP) at BPKP are not only for legitimate purpose and recognition from peers, but emerged from the needs to manage the transparency of the accounting reports.

The third isomorphism in organizational change is normative pressure, which stems from their professionalism. Two important aspects of professionalization are the result of formal education provided by university specialists and the growth of professional networks that span organizations and allow for the rapid diffusion of new models of change. According to DiMaggio dan Powell (1983), professionals from an organization which at the same time is also a member of the professional group, is the subject of pressure to conform to a set of norms and rules that were developed for the group. IAI (Ikatan Akuntan Indonesia) has issued various accounting norms and guidelines, such as code of professional conduct of accountants. Norms and rules were developed through a process of education and professional training, so that most affect many areas of work that have members of the same profession. Accrual-Based accounting standards (SAP) were drafted through the stages of due process with detailed stages from identification of topics, limited research, discussion, until finally being finalized. In compiling Accrual-based accounting standard (SAP), the committee (KSAP) used materials and references issued by the Government of Indonesia, in the form of Government Regulation No. 24 of 2005; *International Federation of Accountants (IFAC)*; *International Accounting Standards Committee/International Accounting Standards Board*, *International Monetary Fund*; *Ikatan Akuntan Indonesia*; *Financial Accounting Standards Board – USA*; *Governmental Accounting Standards Board –*

USA; *Federal Accounting Standards Advisory Board* – USA; and other professional organizations from various countries. (Attachment III Peraturan Pemerintah Republik Indonesia Nomor 71 Tahun 2010 Tanggal 22 Oktober 2010). Referring the various accounting practices adopted internationally, the established standard follows the norms that are considered as best practice by accounting professionals.

As an institution originally engaged in the audit, most BPKP human resources come from accounting background. From the total of 6.400 employee, about 61,5% of them have accounting education (data sispedap BPKP). Most of them are accountants and registered as IAI professionals. The head of SAP working committee and several member of the committee also work at BPKP.

Judging from the above, members of the organization in this case the BPKP have in common with the standard working committee members. As a result, they have similar norms, values, and belief that form the behaviour, expectation, and way of thinking

Similar to Kanter statements, in DiMaggio and Powell (1983), “To the extent managers and key staff are drawn from the same universities and filtered on a common set of attributes, they will tend to view problems in a similar fashion, see the same policies, procedures and structures as normatively sanctioned and legitimated, and approach decisions in much the same way”.

Normative isomorphism shows in the acknowledgement of the new rules which can be accepted as part of the implementation of norms and rules in a professional manner. So even though the applied rule are new, but as a concept, it is in line with the understanding of individuals with accounting background and adheres to the same norms.

Professional pressures in BPKP come from the accounting profession itself. The educational background of the BPKP officials formed their mind set. As part of the profession with similar norm and code of conduct, BPKP employees based their orientations on the norms and rules that have been learned over the years. The similarity of beliefs, perspectives, norms and codes of conduct that are owned by the designers of the standard, makes the acceptance of the new standard smoother.

Viewed as a whole, at *organization field* level, it is understandable that the accrual-based accounting standard (SAP) was adopted by the BPKP extensively through the mechanism of isomorphism. Based on the dynamics of the three isomorphism pressures, it is deduced that in the beginning, the need to implement the new system does not come from the desire of organizations to apply the new ideals as expressed in the research of Harun (2012), but more driven by external pressure in the form of coercive isomorphism, namely the obligation of the government to adopt a new accounting system in the form PP No. 71/ 2010. Starting from the

obligation, BPKP try to better understand the government's desire and expand horizons by studying its application in other countries, that's where the mimetic pressure comes around, to imitate the ways or methodologies that can provide better information, which has been successfully implemented by the organization or other countries. The insight from the application in another country together with the knowledge and experience gained from the profession mitigated the professional pressure representing normative isomorphism.

The second concept try to explain the application of the new system, in which case the accrual-based accounting standards at the firm level, how the rules transforms into routinization or institutionalized, using the process of institutionalization theory from Burns and Scapens (2000). The theory divides *institutionalization* process into four sub process. The first process portrays the encoding of institutional principles into rules and routine. The application of accrual-based accounting system in BPKP started since the issuance of the government accounting standards in 2005. The management applied *encoding* by issuing regulations and policy to implement the accrual accounting system and accountability mechanism. The internal policy regulates the accounting procedures, financial recording, and performance measurement so that achievement can be monitored and measured. Support from management play as a key factor for the implementation of the new accounting system. To succeed in the implementation, the strategy is with intensive communication, prepared sufficient moduls on accrual accounting, hold workshops, seminars, and presentations. Efforts are made to synchronize the perception and understanding of the new accounting standards (SAP) to all involved in the recording and reporting of financial informations. BPKP also build a task force to ascertain the consulting and mentoring for every government institutions that required assistance in implementing the new standards. To simplify expedite administration, BPKP also create applications to support a given application by the Ministry of Finance. The policy to accelerate the application of accrual-based accounting standards is a factor which encourages institutionalization in BPKP.

The second sub process is enacting, when the actors enacting the routines (and rules) which encode the institutional principles this enactment of rules and routines may be subject to resistance, especially if the rules and routines challenge existing meanings and values, and actors have sufficient resources of power to intervene in this process. The enactment process can be done deliberately, by following regulations or established technical instructions, or as a result from application of tacit-knowledge about the way of doing things. In BPKP, each unit preparing financial statements is facilitated and required to provide monthly reports that will be accumulated into an overall report. Adjustment will be reconciled at the preparation of the monthly report, to correct the errors. That

was the time to evaluate and find a solution for every issues. With this strategy, the implementation of the new rules and the emergence of new routines will be influenced by both the encoding of the structural properties of ongoing institutions and the reproduction of existing routines. Every work units are expected to have an insight and internalized the new process into everyday routines. To accelerate institutionalisation, there are also peer-group competitions, where every units supposed to compete in providing a timely and error-free financial reports. Basically, accounting officials with accounting background such as diploma 3 or undergraduate in will be sufficient to grasp accrual accounting principles. Issues will emerge if the back ground is insufficient, as stated by Simanjuntak (2010) i.e. financial management need the support of competent and professional officials. Preparation of financial statements requires officials mastering the administration of accounting standards. BPKP planned to fulfil the requirements by recruiting new personnels from accounting background. BPKP also prepared the official training required to strengthen the commitment, and competence of their human resources, as well as minimize the risk of financial data unreliability. At the enacting phase, disharmony will occur between the new and the old regulations and policies. According to Burns dan Scapens (2000), this enactment of rules and routines may be subject to resistance, especially if the rules and routines challenge existing meanings and values, and actors have sufficient resources of power to intervene in this process. Institutionalization issues to routinize the implementation of accrual accounting standards will emerge, among others, from Deputy Bidang Pengawasan Keuangan Daerah. This unit handles the assistance of local government throughout Indonesia in preparing financial reports. Organization policy concerning the periodic rotation of human resources, while broadened and extend the expertise of the BPKP officials, it also hinder their specialization. The policy maybe beneficial when BPKP functioned as government auditor, but in the meantime, BPKP role as assurance and assistance needs specialisation. Officials responsible for assisting Good Corporate Governance (GCG), has to master GCG, so do the officials responsible with assisting LAKIP (Laporan Akuntabilitas Kinerja Instansi Pemerintah / Accountability Report for Government Performance), or officials in investigation unit, required to give expert judgment in court. At BPKP branch offices, the stakeholders are local government. The request for consulting and *assurance* are more and various. The request, either directly or from BPKP technical deputies required the branch office to optimize their existing human resources by developing work method. The unique position of BPKP made the implementation of accrual based accounting also unique. While other government institutions concerns to implement the regulation PP 71/2010 (or permendagri no 64/2013 for local government) in their organizations, BPKP must learn both in efforts to provide assistance to the financial accountability of the government institutions. Like two sides of a coin, the accrual-based SAP also

has the side benefit for the BPKP, as it gained the confidence of the government to assist local government. Other issues from every change are parties who are familiar with the old system and are reluctant to make the changes. They are used in their usual way of doing things and unwilling to adopt new way of doing things. For this people, the strategies are to establish new policy and also socialisation and dissemination to all relevant parties, so that the application of accrual-based accounting standards can be implemented without any resistance. Interview results revealed that there are those who feel that the new standards only make additional work, because the old cash basis standards is sufficient to provide reliable information. This reluctance arises because the budgetary system is still cash-based, so the information needed to be matched with the budget is only the cash flow statement. The disharmony between the new rules and old policies that are still used need a solution, to expedite the new rules to reach the third sub process which is *reproduction*, takes place as repeated behaviour leads to a reproduction of the routines. Since 2005 in a step by step process, slowly record keeping is prepared with the cash towards accrual basis. Although for the mean time the results is still unclear by using the government (MOF) application, but the BPKP financial statements has demonstrated accrual accounting reporting. (Attachment 4, BPKP Financial Statements of 2013). The results obtained because BPKP has consistently implement and adjust the financial recording and reporting with the new regulations.

The last subprocess is the *institutionalization* of rules and routines which have been reproduced through the behaviour of the individual actors. This involves a disassociation of the patterns of behaviour from their particular historical circumstances, so that the rules and routines take on a normative and factual quality, which obscures their relationship with the interests of the different actors. In other words, the rules and routines become simply the way things are, i.e. institutions. Considering the complexity of the implementation of accrual accounting, a premature decision to migrate from cash to accrual accounting requires a long time for adoption, as well as face many obstacles on the way and finally could bring failure. In the process of institutionalization, there are obstacles to the success of institutionalization as well as driving new rules that will be routinized. The fact that the additional information provided by accrual accounting is rarely used to efficiently manage public sector entities make a claim for their benefits are not achievable in practice. But there is also the possibility to feel the benefits of this accrual-based reporting. Critics argued that the presence of accrual accounting financial statements prepared as the public sector is expected to actually obscures accountability. This is because the complexity of the financial statements is much more complicated than the limited public knowledge as users of financial statements of public sector (Wynee A, 2011). So in addition to

disseminate the compilers of the financial statements, the government, in this case the Ministry of Finance also need to disseminate to the users of the report, so that all efforts to present accrual-based reports can be fully utilized. Athukorala (2003) stated that information generated by the accrual accounting requires considerable cost. Adoption process requires a very large expenses because accrual accounting requires technology and skilled human resources (accountant). However, the technological difficulties may not be a barrier for BPKP because the support of information technology is sufficient to manage the increased need for infrastructure. Pusat inform a sipenga was an, as a unit at BPKP is responsible for the management of ICT, and expected to help BPKP in supporting and realizing its function as a professional Government Internal Supervisory Apparatus (APIP). One task of Pusinf was is to help BPKP in processing and presenting the results of monitoring information to stakeholders, and in the end, the accurate and up-to-date information can support decision making. While the need to train the resource costs specifically does not occur in the BPKP. The fund needed to train human resources are not an issue in BPKP because most of their employees have accounting background, if ever the need arises for training, the training can be done in the office itself, which is relatively more cost efficient. As for the obstacles that may occur, is the accuracy of the officer as well as the uneven number of representatives. Burns (2000) states that the accounting practices and routines that follow can be said to be institutionalized if they are widely accepted within the organization and become an integral part of management control. For that Binsar (2010) suggested the need for management commitment, among others, to provide policies that will support the implementation of the new rules.

CONCLUSIONS AND CONTRIBUTIONS

This research contributes to our understanding of the adoption of accrual based accounting standards by determining that there are three influence mechanisms, coercive, mimetic and normative. BPKP is forced to adopt accrual-based accounting standard because of the coercive pressure, a regulation that must be obeyed in the form of Regulation no 71 of 2010. The pressure is coupled by a desire to be similar with other countries considered more successful, as well as become a benchmark for other organizations. This coercive force is also drive BPKP to find models of implementations from other countries regarded more successful in implementing the accrual concepts for government institutions. The role model or *benchmark* plays an important role for BPKP in order to exist in the realm of government internal auditor that assured the accountability of the government financial report. The expectation builds intrinsic motivation that boost the performance of BPKP personnel to give their best when implementing the new accrual based accounting standard. In addition, the professional support from employee enforces the

normative mechanism to use and internalize the accrual based accounting standard.

As coercive isomorphism is supported by mimetic and normative mechanism, it will transform compliance and replaced it with the potential to interpret, to innovate and correct errors based on experience and previous behavior. The key element is while coercive power induces certain behaviour, the mimetic and normative power enabled the determination to make it happen.

The factors that encourage and boost institulization of accrual based accounting standard at BPKP include high level management commitment, motivation, implementation environment, and organization culture. All those factors, coupled with sufficient facilities and infrastructure such as extensive and fast network, training facilities and knowledge management information system. On the other side, there are factors that obstruct the occurrence of routines and in time hinder the implementation and institutionalization of accrual based accounting standards, i.e resistant to change, management policy especially about employee mutation and shift, and the view point over the benefit of the change.

Implementation of accrual accounting in government is a big challenge, especially when this is done to provide maximum benefit for decision-making and accountability to external users. Theoretically there is no fundamental obstacle for BPKP to apply accrual accounting, mainly in order to encourage the performance of organizations. Accounting is important and fun if it can generate useful information for decision makers, so it needs a plan to utilize the information generated by the accrual-based accounting standards (SAP). The commitment of the officials is essential. They need awareness and clear understanding that accrual accounting will not bring benefits unless the information it generates is used to improve the quality of decision making. Accrual based accounting can provide more comprehensive information than cash-based accounting. The lesson learned here is that no commitment was based on wrong expectations. Establishing policies to expedite the implementation of accrual accounting is already a good first step, but it is necessary to think about how the officials who assist local government can develop his skills without worrying being transferred to the place where their knowledge becomes useless and they must learn another new things. There should also be careful study concerning the application of accrual accounting strategy. The application of accrual accounting in the short time frame (say, 1-3 years) would risk decrease in enthusiasm of the accounting officials, especially because they feel burnout with continuous changes without experiencing its benefits. It is necessary for long-term monitoring (longitudinal) to see the impact of this accrual-based accounting standards (SAP).

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