



# The Accrualization of Public-Sector Accounting in the Perspective of New Institutionalism Theory (a Study of State Universities in East Java)



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## Abstract

This study aims to elucidate the application of accrual-based accounting in state universities with the status of Public Service Agency under the auspices of the Ministry of Research, Technology, and Higher Education of Indonesia in East Java and to explain the effect of external and internal factors on every work unit following the reformation of accounting basis. This qualitative case study uses the perspective of the New Institutionalism Theory. The result of this research is that the researcher can describe the role of the informants in each work unit in applying accounting accrualization and explain the Institutional Isomorphism (institutionalization process) consisting of coercive, mimetic, and normative. Furthermore, the involvement of professional institutions in factors that are normative isomorphism in nature can be linked with allomorphism symptoms. The phenomenon signifies the involvement of endogenous factors such as actors, institutions, and systems of thinking; all of which are combined to support the institutionalization process.

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## 1 Introduction

The Unitary State of the Republic of Indonesia after declaring independence in 1945 for decades has made various efforts to improve the quality of government performance, transparency, and accountability (Rizky & Setiawan, 2019). In the 1970s many criticisms were directed at the public sector because of its existence which was considered inefficient, far behind the progress and developments that occurred in the private sector (Deviani et al., 2020). Indonesia's state financial reform was marked by the issuance of laws that became a benchmark for the development of the state financial management system, namely Law concerning State Finance, Law no. 1 of 2004 concerning the State Treasury, and Law no. 15 of 2004 concerning Audit of Responsibility and Management of State Finances.

Before the law was issued, the Indonesian state financial management system in the aspect of government accounting was lacking. At that time, government accounting in Indonesia had not played a major role as a tool to increase the accountability of government bureaucracy performance in providing public services to the community. The outputs given from each work unit are often inaccurate, late, and uninformative, so they cannot be relied on in decision-making. The law is the basis for the governance of state finances and in its development is supported by various Government Regulations (PP) and Ministerial Regulations (PerMen) which have the aim of realizing good governance. Reform in Indonesia created a movement that is expected to provide change or development, which previously had been applied to developed countries, namely New Public Management (NPM).

The NPM approach can be described as a form of public sector revitalization in the context of a government that emphasizes efficiency, effectiveness, productivity, transparency, and accountability (Hood, 1995). Djamhuri, (2009) stated that the spirit of decentralization in Indonesia is in line and becomes an inseparable agenda with the concept of New Public Management (NPM). Christopher Hood in 1991 introduced the concept of NPM, its emergence provided a considerable change in the performance of the public sector. An indicator of the success of NPM implementation is a change in the management system which was originally traditional (bureaucratic, rigid, and hierarchical) to a management system that is more flexible and sees what is needed by the community (Hood, 1991). NPM is a public management theory that holds that private-sector management practices are superior to those of the public sector. Improving public sector performance necessitates the incorporation of several management practices and techniques used in the private sector into public sector organizations, such as the use of market mechanisms and Compulsory Competitive Tendering (CCT) and the privatization of public companies (Mardiasmo, 2009).

The motivation for implementing NPM in different countries is different. For example, our neighboring country, Malaysia, implements Total Quality Management (TQM) as a form of modernization of public management and its implementation is considered successful. In contrast to Indonesia, which implements NPM to increase income to cover the fiscal deficit, so the phenomenon that occurs illustrates that implementing NPM depends on local contingent factors. Indonesia has implemented NPM in the governance of state finances, one proof of its application is the accrualization of accounting in the public sector. NPM in a government financial management has become the main thing in a reform. To support the management of state finances, the government continues to develop accounting policies based on Government Accounting Standards (SAP). SAP itself aims to provide basic guidelines in the preparation and presentation of financial statements in every government agency. For the implementation of SAP to be more effective and efficient, a Government Regulation is issued to support the development of an accrual-based accounting system in Indonesia which is stipulated by the President to carry out the Act properly.

The main characteristic of NPM is the change in the bureaucratic environment based on standard rules towards a more flexible public management system that is more oriented to the public interest. The implementation of NPM provides updates to public sector organizations through the adoption of ideas, practices, and management techniques in service to the community that has been predetermined by the private sector. Problems that often occur in public sector bureaucracies are not due to errors in-laws and regulations, policies, or programs issued by the government but due to poor management or management in the internal work unit. The government aims to issue government regulations, laws. Hood, (1991) explains that several NPM writers emphasize different aspects of the doctrine, but summarize seven aspects. The seven aspects are 1) Professional management in the public sector, 2) The existence of performance standards and performance measures, 3) Greater emphasis on outputs and outcomes, 4) Breakdown of work units in the public sector, 5) Creating competition in the public sector, 6) The adoption of business sector management to the public sector, and 7) Emphasis on discipline and greater savings in the use of resources. The described doctrine emphasizes that NPM is directly related to the importance of customer service; devolution; regulatory reform; reform of the budget process towards performance budgeting and accrual budgeting (Mahmudi, 2007).

Accounting plays a major role in the process of producing these outputs so that until now the implementation of PP No. 71 of 2010 concerning Government Accounting Standards Attachment I (Statement of Accrual-Based Government Accounting Standards) Number 13, PP Number 6 of 2006 concerning Management of State/Regional Property, PP Number 8 of 2006 concerning Financial Reporting and Performance of Government Agencies, Government Regulation Number 50 of 2018 concerning Procedures for the Implementation of the State Revenue and Expenditure Budget and Government Regulation Number 74 of 2012 concerning Financial Management of Public Service Agencies. The seriousness of the government in supporting the development of financial governance can be seen from the many Government Regulations which state that many reports must be produced.

Previously developed countries have also implemented accrual-based accounting in the public sector, including Greece (Eriotis et al., 2011), UK (Connolly & Hyndman, 2006), Netherlands (Peter Van Der Hoek, 2005), Portugal (Jorge et al., 2007), Belgium (Christiaens, 2003) and many more. Some countries have succeeded in implementing accrual-based accounting, but some countries are still looking for the best form of accrual accounting. The application of an accrual-based accounting system also takes a long time and costs a lot of money. Indonesia has implemented accrual-based accounting, although many government agencies still do not fully understand its application. One of the indicators of the success of accrual-based accounting is that it can be assessed from the opinion of the Work Unit Financial Report obtained. The Work Units under the Ministry in implementing the accrual-based accounting system are assisted by a software information system published by the Ministry of Finance, namely the Accrual Basis Agency Accounting System (SAIBA).

The purpose of publishing this SAIBA application is the encouragement of the increasingly rapid advancement of Information Technology and the need for work units and the central government in processing data to make it easier, faster and have a high level of data accuracy to be presented, the Ministry of Finance designed an application to assist the needs of recording and finance report. Asterini, (2015) states that the use of information technology influences the quality of financial reports. Najati & Aminah (2017) in their research shows that the implementation of accrual-based accounting has a significant effect on the use of the SAIBA application. The results also show that the implementation of accrual accounting has a significant effect on LKKL. The SAIBA application as a financial accounting information system (software) used for the preparation of accrual-based financial statements is of course one of the key factors in the success of accrual-based accounting implementation. The operation of the SAIBA application will be maximized if the SAIBA operators have an adequate understanding of basic accounting. When the basic accounting understanding is sufficient, application operators will more easily understand Government Accounting Standards and operate the SAIBA application (Arianty, 2014).

Public Service Agency (BLU) is a financial management system within the Government that was established to provide services to the public in the form of providing goods and/or services that are sold without prioritizing profit-seeking and in carrying out its activities based on the principles of efficiency and productivity. Work units that have BLU status can be flexible and independent in managing state finances without being bound by regulations so that services can be provided quickly without having to wait for existing bureaucratic regulations. BLU status can be obtained by a work unit if it has applied for and obtained a permit from the Financial Management Pattern of the Public Service Agency ("PPK-BLU") by fulfilling substantive, technical, and administrative requirements (Oulasvirta, 2014; Goddard, 2010). The purpose of the establishment of a BLU status work unit is to improve services to the community to promote the general welfare and educate the nation's life by providing flexibility in financial management based on economic and productivity principles, and the application of sound business practices.

## 2 Materials and Methods

This study uses the perspective of The Interpretivist Paradigm (Interpretive Paradigm). This paradigm emphasizes more on the meaning or individual interpretation of a symbol. This research is research that focuses on case studies. The main purpose of this study is to understand how much understanding of public sector accrualization is applied by government agency work units in terms of organizational change because researchers see accrualization as a process that requires various stages until finally the accrual-based accounting system is fully implemented. can be institutionalized in the government concerned.

This research focuses on case studies which can be categorized as qualitative research using a processual approach. Research on organizations uses a lot of processual perspectives in their research as was done Hinings (1997) and Pettigrew (1997). As a contemporary phenomenon, to gain a thorough understanding of the issue of accrualization in the public sector at State Universities in the East Java Region with BLU status, researchers need various sources of

information as empirical evidence. (Suliyanto & MM, 2017) explained that data collection can be done by observation (observation), interviews (interviews), and documentation. Qualitative data analysis was carried out using an interactive analysis model. (Miles et al., 2014) concluded that there are three steps in the process of analyzing qualitative data with an interactive analysis model, namely data reduction, data display, and conclusion drawing/verification.

### 3 Results and Discussions

*Accrualization of accounting system in new institutionalism theory*

*Institutionalization of the accrual accounting system: content and context analysis*

The institutionalization of the accrual accounting system as a social reality seen from the perspective of organizational change cannot be separated from the aspect of individual human behavior. This statement is described in the behavior of the actors involved and running the organization in every State Universities in the East Java Region with BLU status. This research is believed by the researcher that there are two interrelated things, the relationship between organizational change and the actors involved in the organization because changes in an organization can be determined by the behavior of the actors who carry out their main tasks or vice versa (Goddard et al., 2016; Adhikari et al., 2013).

The focus of this research is the organizational change that began in 2009 as well as the fact that the East Java Regional State Universities with BLU status have been introduced to change the cash basis accounting system to cash toward accruals and also cash toward accruals to full accruals. Work units are required to apply the cash toward accruals which refer to PP no. 71 of 2010 Appendix II amendments to PP. No. 24 of 2005. While PP No. 71 of 2010 Appendix II applies during the transition period for entities that are not ready to implement Accrual-Based SAP as contained in PP No. 71/2010. 71 of 2010. The impact of the implementation of this government regulation has made financial management mechanisms ranging from planning, implementation to accountability develop. The achievement of accrualization that is felt at this time is the increasing number of developing components of financial statements, the work unit is required to explain these components through the Notes to Financial Statements (CaLK). The components of the financial statements are Change Report (LPE). The presentation of financial statements is a form of the work unit in accountability for state expenditures and revenues that are carried out. In carrying out the responsibility of the work unit, it applies accounting policies. work units are required to explain these components through the Notes to Financial Statements (CaLK). The components of the financial statements are 1) Budget Realization Report (LRA); 2) Report of Changes in Initial Balance Over (LPSAL); 3) Balance Sheet; 4) Operational Report (LO); 5) Cash Flow Statement (LAK); 6) Equity Change Report (LPE). The presentation of financial statements is a form of the work unit in accountability for state expenditures and revenues that are carried out. In carrying out the responsibility of the work unit, it applies accounting policies. work units are required to explain these components through the Notes to Financial Statements (CaLK). The components of the financial statements are 1) Budget Realization Report (LRA); 2) Report of Changes in Initial Balance Over (LPSAL); 3) Balance Sheet; 4) Operational Report (LO); 5) Cash Flow Statement (LAK); 6) Equity Change Report (LPE). The presentation of financial statements is a form of the work unit in accountability for state expenditures and revenues that are carried out. In carrying out the responsibility of the work unit, it applies accounting policies. The presentation of financial statements is a form of the work unit in accountability for state expenditures and revenues that are carried out. In carrying out the responsibility of the work unit, it applies accounting policies. The presentation of financial statements is a form of the work unit in accountability for state expenditures and revenues that are carried out. In carrying out the responsibility of the work unit, it applies accounting policies.

The new institutional theory sees that the structure of an organization is influenced by the social environment in which it is located (Carruthers, 1995). An organization is formed into a formal structure consisting of various procedures, processes, and rational rules. The adoption of a formal structure into an organization becomes an institutionalized rule that is more aimed at gaining legitimacy for various organizational activities. New Institutionalism was born in 1977 when John Meyer published his two articles entitled "The Effects of Education as an Institution" and "Institutionalized Organizations: Formal Structure as Meyth and Ceremony". Institutional theory is closely related to an organizational environment. This is by the statement of (Carruthers, 1995) that the understanding of new institutionalism describes the structure of an organization that is influenced by the social environment in which

it is located. So, if we talk about institutional theory, we must also talk about how an organization adapts to its environment.

Understanding New Institutionalism is different from Old Institutionalism. [Longstreth et al. \(1992\)](#) in their research explaining the difference is that New Institutionalism focuses heavily on detailed explanation, with little focus on comparative analysis, while Old Institutionalism cannot help with comparative research and explanatory theory. Old Institutionalism came into little use as scholars increasingly highlighted how formal rules and explanatory structures inaccurately describe the behavior of actors and policy outcomes. An organization is usually formed into a formal structure consisting of procedures, processes, rules (policies, authorizations, decision making, supervision, accounting systems, documents, and statements of the organization's mission and goals). New Institutionalism in organizational studies is related to the existence of an organizational structure that is influenced by where the organization is located ([Carruthers, 1995](#)). An organization is formed because of the same goal to achieve success. Organizational success depends on other factors, names derived from legitimacy not to increase efficiency or achieve better outcomes.

The phenomenon that occurs in the field shows that the application of an accrual-based accounting system in East Java Region State Universities with BLU status begins with the development of information technology developed by the Ministry of Finance. BLU work units are required to adapt to changes published, to achieve efficiency, effectiveness, productivity, transparency, and accountability in the management of state finances. The application of an accrual-based accounting system or often called accrualization is seen by every employee in the BLU work unit as an obligation that must be carried out. The purpose of implementing the accrual basis is to meet the demands of regulations mandated by the government to improve government financial governance for each work unit so that the services provided to the public are of good quality. The services provided in the form of education are the main reason the college was founded. This view was obtained by the researchers during interviews and observations of several research informants which they conveyed and explained as a form to always be ready to apply various published rules quickly and precisely ([Pertiwi et al., 2020](#); [Mandala & Astika, 2019](#)).

The demands carried out by state universities in the East Java Region with the status of BLU from various regulations and laws issued are reinforced by the facts when the issuance of PMK No. 76/PMK.05/2008 concerning Guidelines for Accounting and Financial Reporting of Public Service Agencies. The policy requires each BLU work unit to apply the accrual basis and audit external parties to obtain an opinion on financial statements. The implementation of these regulations occurred because of pressure from the central government. If these rules are not implemented since the establishment of the work unit as a BLU, the opinions that will be obtained are Fair with Exceptions (WDP), Unfair (TW), and Disclaimer of Opinions so that they reflect poor financial management in the work unit. [Meyer & Norman \(2020\)](#) explained that this is the formation of a formal organizational structure that is not due to the organization's desire to increase the efficiency of activities or get better outcomes, but rather to gain legitimacy.

For approximately 10 (ten) years state universities have been running BLU financial management so that many phenomena occur in the adoption of the accrual accounting system. The accrual accounting system in each work unit still cannot be said to be perfect because every year changes are still made in the form of regulatory developments, knowledge updates, and changes to old regulations so that it reflects the accounting policies applied to BLU work units are still looking for the right form. In the process, approximately 10 (ten) years of applying accrual-based accounting have spent a lot of funds, time, energy, and thoughts. The adoption is still not optimal, and the level of success and achievement varies for each work unit. The process illustrates that there are efforts from BLU's work in meeting the demands of its social environment. The New Institutionalism theory illustrates that the existence of the organization will be maintained against various pressures that occur with the isomorphism process ([Eggertsson, 1997](#); [Carruthers, 1995](#); [Davis, 2004](#); [Hood, 2000](#)).

The organization's institutionalized elements of the environment seek to be similar to the institutional environment. The three mechanisms of institutional isomorphism change, namely coercive, mimetic and normative, the three exogenous factors do not stand alone but have complementary relationships with each other. First, the decision of the BLU work unit to start reforming the financial management system, which was initially bound by regulations, became more flexible and less bound by regulations in managing expenditure and income. The existence of pressure on the legal basis in the form of laws, regulations, and other supports as the influence of exogenous factors in the form of coercive has occurred.

[DiMaggio & Powell \(1983\)](#) states that coercive isomorphism occurs because of the binding power factor, namely the state. This study illustrates how the state, represented by the central government, issues various rules that bind the parts of each BLU work unit in managing and accounting for state finances. The accounting policy issued by the Ministry of Finance is one of the supports for work units in the application of accrual-based financial management.



The work unit in fulfilling its responsibilities based on financial management must make financial reports with changes that must be applied, so that if the financial statements are not by the published regulations, there will be a cause and effect that will be obtained, namely an unfavorable financial statement opinion.

Second, the implementation of comparative studies and invitations carried out by the PNPB work unit to the BLU work unit in assistance to encourage and provide direction on the financial management of the Public Service Agency. So that the PNPB work unit can see and apply the advantages of financial management of public service agencies that are semi-independent and flexible. The phenomenon of Mimetic isomorphism that occurs is when an organization imitates existing practices in other organizations that are considered better and more successful.

Third, the presence or invitation from external parties for assistance carried out by BPKP, Inspectorate General, Ministry of Finance, and others is a form of commitment and responsibility of government agencies in overseeing/assisting work units in the successful application of accrual-based accounting. The forms of assistance provided by government agencies to work units are technical guidance (bimtek), socialization, education and training (training) as well as directives related to new regulations/applications issued by each institution. Cooperation with third parties/professionals is also a form of the need for work units in the successful application of accrual accounting. One of the collaborations established by the work unit with third parties is to develop an information system that can assist financial management so that there is a demand for the acceleration of the services provided. This phenomenon illustrates the influence of normative factors in the institutionalization of accrual-based accounting systems. DiMaggio & Powell (1983) states that symptoms can occur due to normative factors, where an organization involves professional actors in the form of efforts to implement certain policies.

Development carried out by professionals can be associated with symptoms of allomorphism. These symptoms can be analyzed through decoupling which illustrates that the internalization of foreign elements by an organization that is not the same as its real role so that it has new values and has been decoupled from its original context. The professional party in question is the BLU work unit that assists in the financial management of public service agencies, government agencies in assisting to work units, and cooperation with external parties in the development of application information systems that can assist the application of accrual-based accounting (Gowan et al., 2001; Francois, 2000). This is illustrated by the implementation of the BLU work unit, which should have implemented full accrual-based accounting, which is still using cash-based accounting towards accruals (cash toward accrual) since the issuance of the PP. No. 71 of 2010. So that the allomorphism that occurs is due to the limited knowledge possessed by each financial management employee so that the fulfillment of government regulations from describing this phenomenon is no longer fulfilled because it is no longer top-down but bottom-up which is adjusted to the ability of each employee work unit.

The form of adoption of NPM practices that have been applied and developed in the public sector in various countries is the application of an accrual-based accounting system that has been previously applied to the private sector. This application can be seen from the change in cash-based accounting, cash-based accounting towards accrual to full accrual-based accounting. Several developed countries have been considered successful in implementing accrual-based accounting such as Greece (Eriotis et al., 2011), UK UK (Connolly & Hyndman, 2006), Netherlands (Peter Van Der Hoek, 2005), Portugal (Jorge et al., 2007), Belgium (Christiaens, 2003) but some countries are still looking for the best form of accrual accounting. The purpose of implementing an accrual-based accounting system is to help increase transparency and improve efficiency and effectiveness in the public sector (Mardiasmo, 2009).

The adoption of accrual accounting in the public sector is a result of the government's and the public's desire for transparency in the financial information presented in financial statements. The trust that is formed from the management system in government agencies is considered to be running effectively and efficiently. The number of other countries undergoing reforms in their accounting systems makes NPM a trend which of course must be related to the purpose and benefits of its use. Blondal (2003) explained that the accrual basis is one of the characteristics of modern financial management practices in the public sector that aims to provide more transparent information about the costs incurred by the government and improve the quality of decision making in government by using expanded information rather than just a cash basis. The general explanation is the demand for accountability in terms of output (output) and results (outcomes) when loosening control over inputs (inputs).

## 4 Conclusion

The findings of this study reflect the reality that occurs when the accrual basis of the accounting system is used for each BLU work. unit. If viewed from the point of view of New Institutionalism Theory, the application of this

accounting illustrates the occurrence of the phenomenon of Institutional Isomorphism (institutionalization process) in the State Universities in the East Java region with BLU status. Three forms of isomorphism symptoms will be explained as follows:

- First, coercive isomorphism (coercion) is so large, this exogenous factor is in the form of formal pressure/demand by the Central Government through laws, government regulations, regulations of the ministry of finance and others that are binding so that there are causes and effects of these regulations are not applied. The regulation is expected to be a guide to the success of the work unit in the application of accrual-based accounting.
- Second, mimetic isomorphism (imitation) can be seen from the collaboration carried out by the PNBP work unit with the BLU work unit in the form of mentoring/mentoring in financial governance starting from planning, realization to financial reporting. In this collaboration, work units can see how the financial management process that occurs in each BLU work unit will be applied to their work unit. So there is an impetus to make the financial management of the work unit into a BLU because it is semi-independent and more flexible.
- Finally, normative isomorphism (professionalization) this form is considered to have a major impact on each work unit because in its realization it is carried out in the form of technical guidance, socialization, training, and direction by the institution that issues regulations/applications so that they have a full understanding as resource persons/assistance. Cooperation can also be carried out with third parties in the development of application information systems to assist the financial management of work units due to the limited knowledge of employees in developing the information system.

The involvement of professional institutions in factors that are normative isomorphism can be associated with allomorphism symptoms. This phenomenon is illustrated by the involvement of endogenous factors in the form of actors, institutions, and thinking systems which are all combined so that they can support the institutionalization process. Symptoms of allomorphism can be analyzed through Meyer & Rowan (1977) as decoupling. Decoupling is the internalization of foreign elements by an organization that has been decoupled from its original context because it already has new values so that the internalization process is not the same as its real meaning or role. Decoupling also occurs because of the large role and influence of endogenous factors which are usually called others. The others in question can be in the form of professional parties, regulations, materials, and information systems. This role in the process of adapting the new elements is very large, namely by standardizing so that it is easier to adapt. The BLU work unit is still showing symptoms of allomorphism because of the limited knowledge of each employee (Human Resources) in the accrual-based accounting reform process. The fulfillment of the needs carried out by the BLU work unit is no longer top-down but bottom-up because based on considerations that take into account the needs of management in adjusting to the circumstances and capabilities of each BLU work unit employee.

#### *Conflict of interest statement*

The authors declared that's they have no competing interests.

#### *Statement of authorship*

The authors have a responsibility for the conception and design of the study. The authors have approved the final article.

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