**UNIVERSITY OF SOUTHAMPTON**

FACULTY OF BUSINESS, ART AND LAW

Southampton Business School

**Indonesian Local Governments' Budgeting Practice :**
**a Theory of Managing the Harmonising of Interests**

by

**Dwi Cahyo Utomo**

Thesis for the degree of Doctor of Philosophy

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# ABSTRACT

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INDONESIAN LOCAL GOVERNMENTS' BUDGETING PRACTICES:

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This study investigates practices of Indonesian local government budgeting during the reform implementation of a performance based budgeting system as the result of the adoption of New Public Management (NPM) in government entities. Despite there being few successful stories about the reform, the study aims to provide an empirical understanding of particular forms of budgetary practices in the context of a developing country that might be different from experiences in developed nations. Additionally, there have been very few interpretive management and accounting studies, over the past two decades, that have focused on local government budgeting. Most such studies were conducted in developed countries (e.g Rosenberg et al., 1982; Jonsson, 1982; Seal, 2003; Goddard, 2004, 2005; Seal & Ball, 2011) and this current study is a response to this research lacuna. Grounded theory is adopted to develop a substantive grounded theory on budgeting practices observed in three Indonesian local governments: Regency of BK (RBK), Regency of PM (RPM) and City of SM (CSM). The central phenomenon of substantive grounded theory is labelled as managing the harmonising of interest. The substantive grounded theory explained the particular ways used by actors in implementing budgetary reform, in which actors also actively attempt to harmonise the coexistence of various interests. This central phenomenon of managing the harmonising of interests occurs when the existence of fear, the presence of distrust and struggling due to complexity result from the influence of central and provincial government through rules, regulations and policies. Managing the harmonising of interests was described through managing public legitimacy, utilising procedural based control, managing trust relationships and playing power games. The outcome of managing the harmonising of interests is recognised as a decoupling between rules and routines. Further, this study links the substantive grounded theory with the perspective of institutional theory, as a general theory in conceptualising the budgetary changes. The main finding of the study explains a framework managing the harmonising of interests that illustrates the complexity of budgetary and NPM reforms. The framework can be interpreted as a response both to the coexistence of competing institutional logics and conflicting institutional demands in the institutionalisation process of a new budgeting system. The contribution of this research relates to empirical findings that enrich budgeting research on NPM in developing countries, employs interpretive methodology and grounded theory, and provides incremental development of institutional logics theory in explaining organisational change in a specific context.

# Dedication

I dedicate this work to my beloved family.

My mother, Mardikaningsing, and my father, Subagio Waryadi

"May Allah Subhanahu Wa Taala, have mercy upon them

as they brought me up when I was little."

My wife, Anita and both of my daughters, Alya and Rania

My mother in law, Fajriyah Astuti

"For Love, Support, and Patience"

My brother, Eko Cahyono, and my sister, Tri Cahyo Wulandari

My brother in law, Mahriza and my sister in law, Farida Nur Ifada

"For the care and help"

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# DECLARATION OF AUTHORSHIP

I, Dwi Cahyo Utomo declare that the thesis entitled Indonesian Local Governments Budgeting Practices: a Theory of Managing the Harmonising of Interests and the work presented in the thesis are both my own, and have been generated by me as the result of my own original research. I confirm that:

- this work was done wholly or mainly while in candidature for a research degree at this University;

- where any part of this thesis has previously been submitted for a degree or any other qualification at this University or any other institution, this has been clearly stated;

- where I have consulted the published work of others, this is always clearly attributed;

- where I have quoted from the work of others, the source is always given. With the exception of such quotations, this thesis is entirely my own work;

- I have acknowledged all main sources of help;

- where the thesis is based on work done by myself jointly with others, I have made clear exactly what was done by others and what I have contributed myself;

- none of this work has been published before submission.


Singed: ……………………………………………………………………..


Date:……………………………………………………………………….

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# Abbreviations

CSM       : City of SM

DU        : Department of Education

DH        : Departmnent of Health

EBTF     : Executive Budget Task Force

LPBB     : Local Parliament Budgeting Board

MDGs    : Millennium Development Goals

MoHA    : Ministry of Home Affair

NIS       : New Institutional Theory

NPM     : New Public Management

NAB     : National Audit Board

PBB      : Performance Based Budgeting

RBK     : Regency of BK

RPM     : Regency of PM

# Chapter 1

# Introduction

## 1.1   Background to the research

This research intends to understand budgetary practice in Indonesian local government, as a case of a developing country. The research was conducted in three Indonesian local governments, consisting of two regencies and one city; namely the Regency of BK, the Regency of PM and the City of SM. This study seeks to understand how performance based budgeting, noted as a managerial tool of the New Public Management (NPM) system, is implemented in the context of Indonesian local governments, as a case to illuminate a developing country. Euphoric democratisation and local autonomy have created distinct environmental settings that may influence the practice and the way to implement the reforms. Furthermore, the study was conducted in a changing situation, based on national regulations for local government budgeting reform in Indonesia. The main participants were managers and key personnel of selected service agencies or departments, and members of local parliaments who are involved in the process of budgeting.

Learning from developed countries, the adoption of private sector management including accounting and control systems for public sector organisation, is a global model termed 'New Public Management' (Hood, 1991; Hood,1995; Lapsley and Pallot, 2000; van Helden & Jansen, 2008 ). More specifically, Hood (1995, p.93) cited the term of "accountingization" ( a term originally coined by Power & Laughlin, 1992, p.133) where accounting, as key element in public accountability, is a central theme in the rise of the New Public Management (NPM) model. Best practice of organisational budgeting and control systems, as part of financial management systems in private sector organisations, is globally adopted for public sector institutions. Generally speaking, the main objective of the adoption is to create better management of and in the public service, with the hope of creating public accountability and organisational best practice as a component of an efficient and effective public sector organisation. The application of private sector experiences to market-market based values and corporatisation, such as contractual mechanisms, management control and performance management, are instances of techniques to support targeted reforms (Hughes, 1998; Metcalfe & Richards, 1990). All of these frames of references can be argued as underpinning issues for accounting scholars to investigate, concerning the actual implementation of the NPM in public sector organisations during the last decade.

Nonetheless, NPM implementation in government institutions of developed countries, mostly studied in OECD nations, has resulted in various features and different achievements among those countries ( Hood,1995; Pollitt ,2002; van Helden & Jansen, 2003; Pollitt et al., 2007). The common focus of the previous studies relates to the way to implement NPM, the obstacles and problems, and the actual results of the reform. In terms of the reform process, the way to implement NPM seems to differ among countries, with their own terminologies, and it also has been identified with the use of different specific concepts such as 'accounting colonization' , 'expertise hybridization' and 'a revolutionary and incremental way' (see Edwards, Ezzamel & Robson, 1999*;* Kurunmäki, 2004; Caccia & Steccolini, 2006). Moreover, Jacobs et al. (2004) offered an argument that the changes of the application of the new managerialism in the actual world, depended on and was therefore unique to each country. As an instance, the UK's experiences are different, compared to Germany and Italy, when accounting practices were adopted in their health services. Conflict between key personnel who engage accounting have been managed by providing incentives for promotion, whilst there is a lack of the incentive approach in the UK model. More specific types of academic work in local governments can be highlighted in Pina et al. (2009) who investigated EU local governments and Rautiainen & Järvenpää (2012), in two Finnish cities, where different forms of accounting implementation, combined with different institutional logic, were revealed.

Obstacles and problems in implementation have been noticed in the reform process. These impediments relate to issues such as the need for organisational capability and accountability of outcome (Pallot, 2001);  the ability to manage cultural change due to the weak influence of social variables in the political and administrative environment (Montesinos & Vela, 2000) and the issue of entrenched traditional and bureaucratic practice (Monfardini & Maravic, 2012).  Moreover, the concept of management accounting, to provide useful canons for managerial information in the public sector, seems problematic according to several scholars. Bromwich & Lapsley (1997) argued that management accounting, as commonly utilised in the private sector, needed to be recycled and adjusted for implementing in public sector institutions. For instance, traditional management accounting pays little attention to the concept of value for money, with only efficiency being monitored by variance analysis.

Referring to research in public sector accounting, and more specifically in the area of budgeting, most adoptions of new managerialism have been determined by international bodies such as the International Monetary Fund (IMF), the World Bank, and the International Public Sector Accounting Standard Board (IPSASB).  The implementation of prescriptive concepts such as performance based budgeting and

accrual accounting, for better accountability in public service management, become both an important area and an identified research lacuna. Hopper et al. (2009) revealed the need to investigate the lack of knowledge in the context of less developed countries in which the Management Accounting System (MAS) is operated. Particularly, there is a need to know how local cultural attributes are reproduced in distinctive forms of accounting and accountability.

Resource allocation, public participation, local control, making decision makers more accountable and making agencies more responsive, are the conceptual objectives of decentralisation (Alawattage *et al.*, 2007). Nonetheless, there are consequences, if potential risks are not taken into account carefully, concerning the adoption of decentralisation. Institutional capacity to exert local control should be adequate for fighting corruption, stopping policies from favouring elites, and reducing regional disparities. Tight control procedures of budget execution might often be in conflict with the need for being more flexible in managing a budget, or budgets, in order to reduce poverty. It is possible to assume that a local government might preferably operate delegated and adaptive budgeting based on output control or actual expenditures instead of long term plans.

Moreover, inspiration of the study begins from the need to obtain in-depth understanding of activities inside an organisation viewed as a social subjective reality. Consequently, investigating budgetary practice in an organisational context should be undertaken from the point of view of those who are involved in it. Therefore, the existence of different institutional shared values and beliefs among actors in organisations, and the process of arrangement particularly in developing countries, should be noted as an important research gap.

Initially, most developing countries reformed their budget system as a part of New Public Management (NPM) development; a change identified in published research articles and consultant reports such as those from Tanzania, Ghana, Malaysia and Singapore. To the best of this author's knowledge, the reform intended to improve government performance has only happened in developed countries. Manning (2001) noted that one significant finding is the fundamental difference of public expectations of government institutions between developing and OECD countries. Expectations of the required quality offered by public services in developing countries are less than in developed countries. Practice of performance based budgeting, in the context of developing countries, may have a particular form. Therefore, this topic calls for further research.

## 1.2   Statement of the research problem

The intention of this research was to understand budgeting practices in three local governments in Indonesia. Inspiration for the study begins from the need to obtain in depth understanding of activities inside the local government organisation, viewed as a social subjective reality. Consequently, investigating budgetary practice in an organisational context should be taken from the perspective of those who are involved in it. The existence of different institutional shared values and beliefs among actors in organisations, and the process of arrangements particularly in developing countries, have been noted as an important research lacuna. There is a growing emphasis on the need to investigate a lack of knowledge, in the context of less developed countries, in which the Management Accounting System (MAS) is operated.  Particularly, there is a need to know how local cultural attributes are reproduced in distinctive forms of accounting and accountability  (Hopper et al., 2009).

As part of national reform, local governments in Indonesia have changed during the last decade. NPM, with accounting as a key element, was implemented within the country, having been adopted from the best practices of global institutions. This reform appeared in conjunction with  the implementation of massive decentralisation and performance-based budgeting; moves that were then followed by double entry bookkeeping as accounting changes were applied to financial reporting. Currently, the accounting standards body of Indonesia also proposes to implement accrual accounting in all Indonesian government institutions in the upcoming year. However, the application of performance budgeting reform, followed by accounting changes, lack any empirical results coming from developing country case studies. Therefore, this research is initiated by this author's belief of the need to understand budgeting practices in the context of the changes, as part of the management accounting domain within Indonesian local government institutions.

The following research questions have been formulated during the first round of data collection. These questions were refined during data collection. The research issues are presented below.

i.     What actual effect has resulted from the change of budgetary practice and how the change of budgetary practice has been developed in the organisations.
ii.    How budgetary practice , as the implementation of performance based budgeting, is perceived by actors as the result of the change.
iii.   How the perceived budgetary practices are used by actors in the field study.

iv.      What theoretical explanations can be formulated to comprehend and clarify the budgeting practices in the everyday life context of the observed organisation? How can the theoretical explanations of budgeting practices in Indonesian local government explain the implementation of accounting reform in the three observed organisations?

## 1.3   Importance of the research

In fact, most previous government budgeting studies have been conducted in the developed countries, where the environmental background such as culture, development history and economic achievement is likely to be different from that in developing countries. Public sector organisations operating in developing countries, might utilise different logic which may result in different ends. More specifically, this study is going to provide an in-depth understanding of government budgeting practice within local authorities in a situation of change implementation. The main justification of the study can be indirectly presented by answering the following issues.

***Why public sector budgeting is a salient topic to be investigated in the real world.***

As a central theme of new public management, poverty reduction is the main objective of every government entity operated in developing countries. This intention can only be managed effectively if the entities employ proper financial management systems in which government budgeting is central. This presumption has motivated researchers to investigate its implementation in the real world.

Although adoption of the NPM model for public sector budgeting and accounting reform has been researched through practice in the context of both developed or developing countries, the complexity of the real world leads to different results. The manifestation of complexities and contradictions in the process of organisational planning, budgeting and control appears in the format of loose coupling between budget decisions and actions (Parker, 2002a; Nyland & Pettersen, 2004). Interaction also occurs between actors which points to a dynamic rather than a static model. This complexity of the change has been related to the power and culture existing in organisations (Kluvers, 2001). More investigation into the practice of public sector budgeting, in various contexts could significantly contribute to the academic literature that provides the link between practice and theory in various contexts.

***Why the practice of budgeting needs to be investigated in a local government context***.

In the context of local government, it was noticed that municipalities experienced more complex environments compared to other government bodies. External environments, such as central government and other vertical institution policies, might lead to uncertainty that will probably also have significant effects on managerial behaviour (Budding,2004; Groot and Budding, 2004). The differences (between local government and) central government or federal government have been noted due to their distinct environments (Wildavsky,1975; Pendlebury & Jones, 1985; Gianakis & McCue, 1999). Moreover, Lapsley, Miller & Panozzo (2010) contend that local government budgeting has not been explored intensively compare to the trend associated with central governments' budgeting

***Why developing countries, and more specifically Indonesia, have been chosen as the case for research.***

To the best of this author's knowledge, few studies of local government budgeting in developing countries have been conducted for generating a theory or theories drawn from practices that are identified on publication. In budgeting and performance measurement studies, different issues have been revealed by several authors, compared to cases of developed countries (Ott & Bajo, 2001; Andrews & Shah, 2003). Problems relating to a lack of management capacities and technique, internal control and activities and reward are examples of important problems noted in budgeting studies of developing countries. A multidimensional approach of performance measurement involves issues of responsiveness, efficiency and accountability; all claimed as additional factors when considering the process of budgeting in developing countries.

In the specific context of Indonesia, budgeting reform has been conducted for almost a decade with performance-based budgeting and a massive decentralisation programme as significant features. However, reform problems can be identified with several issues such as cultural constraints associated with modern systems of administration, and political tradition (Guess, 2005; Kristiansen et al., 2008; Hawkesworth et al., 2009). With these problems, the outcomes seem to offer only insignificant contributions to better public services and management, although change is the common feature. As regads the issue of decentralisation, implementation of Indonesia's decentralisation reform has resulted in a fragmentation of regional development, in which many local governments consider themselves to be their own 'kingdom of authority' (Firman,

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2009). The result of the reform might also be impacted by the journey of reform, where rivals and allies appear amongst reform drivers. Lack of consistency between regulations issued by the Ministry of Finance and Ministry of Home Affairs are instances of national political issues that might contribute to ineffective reform (Marwata, 2006; LGSP, 2007). Therefore, the complexity of environment previously identified in Indonesia is unique when compare to other countries; this uniqueness needs to be explored regarding its impact on public sector budgeting practices.

## 1.4 Structure of the thesis

This thesis consists of nine chapters and is organised as follows. The first chapter provides an introduction to the thesis. It discusses the background of the research and the explanations of research lacuna are broadly presented. It is followed with a statement of the research problem and the research questions form part of the discussion. Subsequently, this first chapter discusses justification of the research that reveals what is the importance of the study from several points of view. For the final presentation in the first chapter, the structure of the research is presented as an outline of the thesis. The outlines of next chapters are presented below.

Chapter two

Chapter two presents a literature review concentrated on seven main discussions. After the introduction section, the second section discusses public sector budgeting and accounting that presents terminology relevant to both budgeting and budgets. It consists of a discussion of the accounting basis commonly employed in the public sector, for both cash and accrual bases, and its follows with an examination of the change of budgeting system from traditional budget to performance budget.The third section discusses the importance of budgeting and accounting reform in NPM. Next, the fourth section in this chapter presents details of previous researches into budgeting and accounting in public sector organisations in the context of developed countris. This section was followed by the fifth section which particularly provides empirical findings of developing countries. The sixth section provides a presentation of relevant studies for researching Indonesian local government budgeting. As conclusion. a synthesis of the literature review is addressed to formulate justification for doing interpretive research. Generally, the literature review in this thesis in not aimed to develop a hypothesis but more to provide a focus on the background of the research and the importance of doing this type of study.

Chapter 1 - Introduction

Chapter three

Chapter three provides an explanation of the research methodology and research method. It discusses the philosophical assumptions of social research and the justification of employing an interpretive approach as a research paradigm in this study. Grounded theory section is also presented with depictions of common types of grounded theory and its review of the types. As an adopted method of this study, grounded theory influences procedures that were conducted during data collection and analysis for theory generation. This chapter also discusses instances of grounded theory in accounting studies, in order to provide justification for the procedures employed in this research. The last section presents a discussion of researching into the practice of Indonesian local government budgeting. Justification and focused areas of research are discussed at the end of this section.

Chapter four

Chapter four explains the description of research sites observed in this study. The first section provides a broad description about Indonesia which explains its geographical and demographical conditions, the existence of cultural diversity along the country, and a short summary about the government reforms. Next, an overview of Indonesian local government is presented to provide an explanation of organisational structures and actors involved directly in the budgetary process. The observed local governments are also discussed through comparisons among the three cases. The comparison includes financial conditions, political environment, and the observed departments of the study.

Chapter five

In this chapter five, the first stage of data analysis is explained through a discussion of the open coding process. Strauss & Corbin (1990) propose open coding as a process suitable to break down, examine, compare, conceptualise and categorise data. Chapter five mainly focused on discussion of the final open categories resulting from the open coding process. The chapter began with a brief explanation of open coding analysis, referring to the three steps of the open coding process employed in the study. The final open categories total 27, formulated from 216 early open categories. Each final open category is explained in detail.

Chapter six

Chapter six discusses the process of axial coding. Recognising relationships between categories is the main intention of axial coding. During the process of axial coding, 10

core categories were recognised to represent relationships among the 27 categories formulated previously in the open coding process. This chapter mainly describes in detail the rationale of each category with relation to their open categories. Technically, the process of axial coding was conducted through investigating the relationship among final open codes grouped into core codes. As a result of the process, core codes are formulated that integrate the relating open codes which show similar characteristics.

Chapter seven

The last coding process is presented in chapter seven. Chapter seven describes the substantive grounded theory as the main finding of the study. The substantive theory is generated from the integration of all the emergent phenomena presented as the core categories. Strauss and Corbin (1998, p.143) describe selective coding as the process of integrating and refining categories.

First, selective coding was primarily performed to select the most important core categories identified from all of the core categories formulated in the axial coding. Selection of the most important core category is aimed to determine a central phenomenon of the emergent theory. The process of selecting the most important category is conducted by using the paradigm model prescribed by Strauss and Corbin (1998). During the process, core codes obtained in the process of axial coding challenge each other by looking back at their relationships as explained in the axial coding. The central phenomenon of this study, identified as the most important core code, was "managing the harmonising of interests". This central phenomenon was selected from the core categories that appear frequently in the data of all observed cases. In addition, other core categories can be related to the central core category.

The central phenomenon, 'managing the harmonising of interests', explains the particular ways actors implement budgetary reform at the Indonesian local government level. The practice of the organisational actors' commitment to implement the required reforms, conducted through the executive actors' preferred ways, emphasising compatibility with the existence of various interests, was labelled as "managing the harmonising of interests". In this context of the study executive actors, as the main actors of the change, managed harmonisation through a set of implementations to maintain organisational stability by performing the reforms in a way that is consistent with the complexity of stakeholders' interests.

Second, the paradigm explained strategies or routine tactics of organisational actors for the central phenomenon- managing the harmonising of interests. There are four strategies: managing public legitimacy, managing trust relationships, playing power games, and utilising procedural compliance in internal control.

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Third, a set of causal conditions is discussed to explain why and how organisational actors or groups implement the new budgetary system in the form of managing the harmonising of interests. There are four conditions that cause the occurance of the central phenomenon – managing the harmonising of interests: the influence of central and provincial organisations, the existence of fear, the present of distrust and struggling due to complexity.

The four conditions connected indectly and directly to managing the harmonising of interests are now examined in detail. The influence of central and provincial organisations has indirectly contributed to managing the harmonising of interests. With its power, central government can legislate, monitor, evaluate and influence allocation through the controlling role of the provincial governments. This top-down model contributes to the occurance of the last three conditions that could be directly linked to the central phenomenon, 'managing the harmonising of interests'. Second, the existence of fear is the condition resulting from actors' interpretations regarding national laws and regulations. This includes the fear of being accused of corruption and fear of losing power. These fears are associated to the reform implementation; the actors preferring comfortable conditions to accompany the process of interest harmonisation. Third, there is the presence of distrust, mainly manifested in the form of pessimistic perceptions about expected behavioural changes and benefits gained from the reform implementation.The presence of distrust relates to feelings of uncertainty associated with the new flexibility of budgeting. Fourth, the complexity that makes actors struggle to implement the required reforms also resulted from the influence of the central and provincial governments. These are the reasons why actors still employ old norms in the new system in order to manage the flexibility that supports the process of interests harmonisation.

The last, paradigm also explains an outcome of the employed strategies for managing the harmonising of interests that is the existence of decoupling between rules and routines. Chapter seven is summarised with the presentation of the substantive theory diagram to integrate all of the discussion of the emergent categories.

Chapter eight

Chapter eight presents a framework toward formal grounded theory. Following the previous grounded theorists, the substantive theory generated from data allows the emergence of theoretical interpretations relevant to the context of the research that may not be captured by other research strategies (Strauss, 1987; Goddard, 2004; Lye et al., 2005). In this research, institutional logics were employed as general theory to explain the substantive grounded theory: managing the harmonising of interests.

Particularly, this chapter provides an explanation of the relation between the substantive theory with the NIS theory related to the co-existence of competing institutional logics and conflicting institutional demands. The former merely looks at internal processes inside organisations (Lounsbury, 2007,2008; Thornton et al., 2012), while the latter focuses on understanding the interplay between external and internal institutional pressures (Greenwood and Hinings, 1996; Järvinen, 2006; Rautiainen and Järvenpää, 2012). Using these two theoretical perspectives and previous empirical findings, the substantive theory is advanced, via a framework, toward formal grounded theory.

<u>Chapter nine</u>

Chapter nine presents the research findings, contributions and limitations. It also offers recommendations for future research.

The presentation of the research findings explains incremental evidence of practice in implementing Performance Based Budgeting (PBB) as part of NPM's application in the context of a developing country. The research provides evidence of the particular ways actors act in implementing budgetary reforms at the Indonesian local government level, in which actors actively attempt to harmonise their various interests. The practice of the organisational actors' commitment to implement the required reforms, conducted through organisational actors' preferred ways, emphasising compatibility with the existence of various interests, was conceptualised as "managing the harmonising of interests". This central phenomenon has been explained together with its associated conditions, strategies and outcome of strategies to construct the emergent theory – managing the harmonising of interests.

These findings are related to the explanation of the complex environment experienced by actors during implementation of the reform. Despite the interplay of institutional pressures between external and internal factors, this study also highlights the coexistence of competing institutional logics in the implementation of PBB, as identified from the interaction between executives and legislators. In the perspective of interplay between internal and external factors, managing the harmonising of interests is interpreted as strategic responses of institutional pressures and demands ( Oliver, 1991; Pache & Santos, 2010). While, the perspective of competing institutional logics highlights that the central phenomenon- managing the harmonising of interests - is similar to the several approaches of collaboration in managing conflicting institutional logics (Fiol et al., 2009; Hardy et al., 2005; Reay & Hinings, 2009). All of this general theoretical perspective was employed to present a framework to support a formal theory.

There are several contributions presented in this thesis. First, a general research contribution  is related to filling the lack of research upon organisational micro-practice as counterweight to the focus upon macro structures (Suddaby, 2010; Thornton et al., 2012). The research of performance budgeting practice, in the context of Indonesia local government, enriches theoretical variations within the utilisation of NIS theory. Looking merely at the perspectives of legitimacy and isomorphism must be criticised as institutional theory tends to "defocalise" interests in explaining human behaviour. Legitimacy may come from multiple sources and then the isomorphic perspective may be insufficient to explain the whole phenomena. In the isomorphic perspective, complex phenomena are simplified once extracted from the variety of organisational actors' motives and interests.

Second, one of the specific research contributions can be related to theoretical contributions.  The coexistence of competing institutional logics and conflicting institutional demands could be highlighted in the context of Indonesian local governments' budgeting. The coexistence of competing institutional logics supports the findings in the other context such as the nature of radical change within the health care organisational field (Reay & Hinings, 2005), collaboration as a result of the coexistence of competing institutional logics (Reay & Hinings, 2009), the tensions and interplay between competing institutional logics  (Swan et al., 2010), decoupling of formal rules, and routines if there are conflicting logics (Rautiainen, 2010). Meanwhile, the conflicting institutional demands borrow the terminology promoted by Pache and Santos (2010). This perspective is consistent with 'institutionalist' scholars who conceptualise institutional pressures, thereby forming a set of beliefs of organisational actors associated with external and internal tensions (Greenwood and Hinings, 1996; Järvinen, 2006; Rautiainen and Järvenpää, 2012).  The substantive theory 'managing the harmonising of interests' was a response engendered by the causal factors associated with the existence of various interests among organisational actors during implementation of the budgetary reform. The competing institutional logics explain the source of response from interaction between internal processes, while conflicting institutional demands represent inter-penetration between external and internal pressures. The context of Indonesia local government budgeting describes the existence this complex environmental setting.

Third, practical implications suggested for policy makers constitute another specific contribution of this study. In the context of Indonesian local governments' budgeting reforms, national regulators and other policy makers have suggested the need to redesign the national rules and regulations in order to influence the fundamental change of the existing embedded culture of administrative practice. This should be

addressed to discontinue the conflicting logics and reduce directly the negative impact of the logics battle. Moreover, other efforts for cultural change, such as personnel character building development, should be directed to support the role of rules and regulations. Development of self-consciousness about actions that are morally acceptable is much more important rather than decisions merely being based on technical knowledge of the new system. Understanding various organisational cultures makes the reforms more possible to be implemented effectively. Effective reform may be obtained if the policy makers employ the embedded culture as a medium for that success.

Fourth, the last specific contribution of this study is methodological. The contribution is associated with the utilisation of an interpretive paradigm and grounded theory method. In the area of the interpretive paradigm, this study contributes to the practical illustration of the validation process in interpretive management accounting research. Validation means developing the credibility of a piece of research in front of relevant audiences. A combination of emic and etic presentation are the instruments of validation in interpretive approaches (Kakkuri-Knuuttila et al., 2008; Ahrens, 2008; Lukka and Modell, 2010). Next, the way a researcher adopts the grounded theory approach is another methodological contribution. This grounded theory study demonstrated a systematic approach during the open coding process, but avoided imposing emergent categories through the prescripted approach. In addition, the study contributes to the illustration of how the emergent concepts were integrated to become a theory. The way to integrate those concepts was inspired by the paradigm perspective of Strauss and Corbin (1998, p.128).

# Chapter 2

# Literature Review

## 2.1 Introduction

The intention of this literature review chapter is not to synthesise a hypothesis or determine a proposed theoretical framework for empirical analysis. The chapter focuses on reviewing literature in relating to the empirical work of budgeting and accounting that has been done in the area of public sector organisations in general, and local government institutions in particular. Overviewing previous literature is utilised to cluster any empirical work, both in developed and developing countries, in order to provide background and context to the research. The main discussion proposes to compare and contrast empirical findings of budgeting and accounting reform in both categories of country. Moreover, this literature review highlights importantly government accounting research conducted in developing countries as on integral part of public sector accounting development. In addition, specific reflection on research into local government budgeting and accounting context that might be different from other public sector organisations. While 'local authority' is a very specific context, issues of budgeting and accounting practiced in developing countries, that might be distinct from developed countries, also form a fundamental research gap noted in this study.

After the introduction of the literature review section, the second section starts with the discussion of public sector budgeting and accounting reforms. The discussion presents an overview of budgeting in general and government budget in particular. Specific nature of local government budgeting are supported with the discussion of public sector accounting reforms. Next, the third section of literature review presents research into public sector budgeting and accounting in the context of developed countries. Depart from empirical findings of public sector accounting, the fourth section specifically highlights government accounting research in the context of developing countries. Refer to the research of practices of public sector budgeting and accounting, the research of government accounting in developing countries are discussed with regard to distinct characteristic compare to the developed countries' experience. The discussions are complemented with research into local government budgeting and the change of government accounting in developing countries. The fifth section presents relevant studies for Indonesian local government budgeting research. The sixth section provides a synthesis of this literature review chapter, linked to the design of the research which aims to understand the practice of local

government budgeting in the context of developing countries, and with Indonesia as a case study. The last section presents summary of this chapter.

## 2.2 Public sector budgeting and accounting reforms

With intention to the provide background of government accounting research, this section provides a discussion regarding studies of public sector budgeting and accounting change. Overview of public sector budgeting and government budget are briefly discussed before presenting critical review of specific nature of local government budgeting and public sector accounting reforms. The discussion of  public sector budgeting and accounting reforms presented in this section are followed with critical review of the research in the context of developing countries which are presented in the subsequent section.

### 2.2.1    An overview of budgeting

There is a common perspective that budgeting can be interpreted more closely to the terms of a process and a mechanism, rather than an output, or the product of a process (Schick, 2007). Meanwhile, the output of a budgetary process is a budget that may refer to a document consisting of written plans. This section discusses various meanings of  budgeting suggested by scholars in the area of public sector organisations and particularly in the government entity.

Broadly, budgeting as a process involving that there is an activity to handle input in the form of information regarding resources allocation for getting output in the form of written plans. This implies budgeting is closely related to the decision making process (Walther and Skousen, 2009). Budgeting may have various meanings depending on its social context.  For instance, budgeting in several African countries has been linked to priority of poverty reduction goals (Foster et al., 2002), as a reflection of traditional Catholic culture in decision making of Catholic parishes (Kluvers, 2001a), as a means for control and loose coupling in the context of the health care environment (Covaleski and Dirsmith, 1983).

In the general context of government, Smithies (1968) contended that almost all government decisions have budgetary implications in that they involve allocating scarce resources. This contention highlighted that budgeting is a process of governmental decision-making. In line with this argument, Schick (2003) claimed budgeting as a rule-driven process that sets up public money spending, as well as increasing the amount of public money. A similar perspective can also be noted in

Wang (2002) who claimed that budgeting is the way to make decisions concerning public resources. In a more specific view, Collier & Berry (2002) suggest that budgeting is a formal process by which plans are established for future time periods. In addition, it is possible to classify the process into the three sequential stages of preparation, reviewing and submission (Jones & Pendlebury, 2010).

Moreover, a budgeting process implies risk and/or uncertainty as factors influencing the process. Therefore, budgeting can be viewed as more than merely a process. The meaning of a process is possible to be extended by looking at the context of process and environmental factors that may influence the budgetary practice. Wildavsky (1975, p.7) explained basically that "government budgeting and politics are intimate". A government's budget is an effort to allocate financial resources, through the political process, in order to maintain a variety of public services. Complexities of process commonly occur due to limited resources, and then allocation is not a simple mechanism; negotiations and bargaining are likely to occur during, and therefore become part of, the process. Caiden & Wildavsky (1980) analysed the process of planning and budgeting in poor countries and conclude that there are certain factors influencing budgeting as a process; namely political, economic and social environments. Moreover, it is important to highlight the distinction between the government budgetary process in a rich country and a poor country (Wildavsky, 1986). The budgetary processes seem to run in dramatically different ways, depending on the country's wealth and stability factors. As an instance, a rich country with high stability of revenue generation leads to incremental budgeting, while a poor country with uncertainty tends to produce repetitive budgeting (Wildavsky, 1986).

This overview of budgeting presents various meanings of the concept / term, both in the context of government and other organisations. All of these contentions reflect that budgeting is a complex process as a result of limited resources and many influencing factors. Especially in the government context, a range of budgeting practices might occur among government institutions, since their environmental backgrounds: namely political, economic and social development, will vary. This study intends to understand the meaning of budgeting, as reflected by organisational actors in three Indonesian local governments.

### 2.2.2 An overview of a government budget

As an output of the budgeting process, a budget is presented in a bundle of documents. In government institutions, a budget is enacted as a legislation that regulates the amount of available public money and the targeted performance in a certain period. From a management perspective, the function of a budget in a government institution has been argued by Schick (2007) as a trichotomy: namely

planning, management and control. Planning is the process which involves selecting a programme or action as determined by objectives. Management is related to how the organisation will execute the approved programme; design an organisational structure to carry out the approved programme; and staffing and procurement of necessary resources. Meanwhile control is the conventional function of budgeting for financial accountability, by binding operational officers to policies and plan set by superiors. (Pendlebury & Jones, 1985)

However, as a result of the budgeting process, in social, economic, and political contexts play important roles during the process, the meaning of budget could vary as determined by those factors. Generally, a budget can be thought of economically, as a management tool to portray quantitatively the relationships between organisations and their environments (Collier & Berry, 2002). A budget depicts converting plans for the use of resources into financial values. In a social context, a budget can be depicted as a device for controlling behaviour of participants involved in an organisation, as a medium of communication, and / or as a manifestation of power (Wang, 2002; Wildavsky, 1975). From a political perspective, a budget is a written document to guide every participant involved in a budget's execution. However, the essence and spirit of informal negotiations and bargaining can never be completely captured by written data (Jones & Pendlebury, 2010).

### 2.2.3 The specific nature of local government budgeting

Local government budgeting is not only distinct from central government or federal government but also it is often different from other local government budgeting (Gianakis and McCue, 1999). As an instance, Pendlebury & Jones (1985) revealed a comparison environment between local government and central government in the United Kingdom. Using classification of Wildavsky (1975), the environment of local government is different compared to central government in the UK. Local governments commonly experience a poor environment and are predictable, in which spending may be virtually unconstrained by income. In contrast, central governments exist in a more wealthy environment and predictable. Therefore, it is possible to argue that the distinctions lie commonly in the manner in which the financial problem of raising money is approached.

One of the salient issues which particularly make local government different compared to other public sector organisations may relate to the motives of the reform in a national context. The environmental background of financial management reform, including budgeting reform in developing countries, may be relatively impacted by the

motives of decentralisation in a national context. Shah and Thompson (2002) revealed that budgeting practice may be directly and indirectly influenced by the decentralisation of fiscal policies in a national context, such as revenue autonomy, expenditure autonomy and borrowing privileges (Shah and Thompson, 2002).

To the best of this author's knowledge, local government budgeting has not been explored intensively, compared to the trend associated with central governments' budgeting (Lapsley et al., 2010). Therefore, this study will focus on local government practice of budgeting, rather than what happens in central government.

### 2.2.4   **Public sector accounting reforms**

The reforms of public sector accounting have been much influenced by global development through either  the conceptual umbrella of New Public Management (NPM) or more specific on the term of New Public Financial Management (NPFM) (Adhikari *et al.*, 2013). The studies of public sector accounting reforms have resulted various description of real practices reflecting diverse adoption of accounting technology, different organisational, and environmental contexts.

The adoption of new approach of accounting and management technique in public sector organisation can be identified in the themes such as performance measurements (Bale and Dale, 1998; ter Bogt, 2008b; Andrews, 2006; Schick, 2007), budgeting area (Blöndal, 2006; Blöndal, 2010; Ouda, 2003; Carlin and Guthrie, 2003; Carlin, 2006; Robinson, 2009; Hyndman and Connolly, 2011); and the area of accrual accounting implementation (Christiansen & Rommel, 2008; Blondal 2003; van der Hoek 2005; Carlin, 2005; Hepworth, 2010; Jagalla *et al.*, 2011). Most of the reform story was related to the promotion of the accounting reform benefit expected in creating better public sector organisation for better public service delivery. The role of performance measurement becomes a central discussion point in budgeting practice and conceptually recognised as performance budgeting and the accounting change (van der Hoek, 2005; Robinson and Last, 2009; Jones and Pendlebury, 2010; Kelly and Rivenbark, 2011).

In term of organisational contexts, the studies also investigated in heterogeneous type of public sector organisations such as Government (Goddard, 2004; Ezzamel et al., 2007; Lapsley *et al.*, 2010), the context of school (Edwards et al., 2000), health care (Chang, 2009; Macinati, 2010), the context of religious organisation (Kluvers, 2001; Parker; 2002a). Various result of the reform demonstrates the environmental context of the reform obviousely influence the real practice. In-depth understanding the context of study is important for future development. As an instance, Lapsley & Wright (2004) revealed that implementation accounting innovation, such as accrual-based

budgeting in public sector organisations, is largely affected by government influence. Therefore, studying budgeting that has been practiced in government organisations would contribute to the development of the existing practice itself

Despite implementation of various accounting concepts and heterogeneous organisational contexts, the dissimilarity of practical result of the reform between environmental contexts of developed and less developed countries also become popular themes. The public sector accounting studies investigated in the developed countries' context (Hughes, 1998; Metcalfe & Richards, 1990; Hood, 1991; van Helden and Jansen, 2008). Despite these normative features and expected benefits, results of accounting change of NPM implementation may differ depending on the various contexts in which the NPM is applied. For instance, van Helden and Jansen (2003) explained NPM in Dutch local governments whilst Dawson and Dargie (2006) discussed NPM in the UK health sector. Several researchers in the last decades have noted the benefits of NPM based on their field studies. Budding (2004) compared NPM municipalities and non-NPM municipalities with a claim that the latter show less impact of environmental uncertainty than the former. Managers in NPM municipalities would be expected to be more aware of the external environment to manage the issue of uncertainty. The NPM approach has also been claimed have an even effect on managerial behaviour in municipalities, than that which was expected (Groot and Budding, 2004).

In fact, few studies published in top rated journal have explored the practice of public sector accounting in the context of developing or less developed countries. Some of empirical works can be pointed out in the study such as the context of Bangladesh (Alam and Lawrence, 1993), and the context of Ghana (Rahaman and Lawrence, 2001). More specific in the context of government organisation (Tambulasi, 2007; Adhikari and Mellemvik, 2010; Adhikari *et al.*, 2015; Yapa and Ukwatte, 2015; Goddard and Mzenzi, 2015). Understanding the context of developing country is needed for effective implementation. The developed countries' experiences might not fit to the context of developing countries.

Both context should be explored before studying the practice of accounting reform in a developing country's context. The two following sections are presented to discuss various findings in public sector budgeting and accounting in the context of both developed and developing countries.

## 2.3 Research into public sector budgeting and accounting in the context of developed countries

This literature review section focuses on exploring previous research into public sector budgeting and accounting in the context of developed countries. The review of previous research begins with the practice of budgeting and accounting, and continues with the topic of performance budgeting in public sector accounting. Next, investigating the changes of accounting in public sector organisations are discussed. In summary, this section presents lessons from empirical findings in the context of developed countries.

### 2.3.1 Studies of practices of budgeting and accounting in developed countries

Previous research in the area of budgeting and accounting of public sector organisations in developed countries has generally been conducted with focus on understanding everyday practice in the real world. The accounting and budgeting practices are related to their environmental contexts such as social, political, and economic settings. The links between planning, budgeting and control are the technical focus of most studies. The instances of previous research conducted with various types of public sector and non profit organisations can be presented as follows.

In specific organisations, such as schools, Edwards et al., (2000) investigated the link between the planning of educational strategies and the budgeting process, in three field studies. The internal system of budgetary control and development planning, as implemented by schools, seems has been utilised to satisfy external legitimacy, rather than to influence internal decision making.

Kluvers (2001) examined budgeting process in religious organisations. The study showed that a sacred - secular divide, as an institutional value, occurs in the process of budgeting. The result of the study also noted various models of interaction between parishes which point to a dynamic, rather than a static, model. The degree to which the sacred can resist the secular can be affected by the power of the parish priest.

A similar study in a religious non-profit organisation, Parker (2002a) employed a grounded theory method to research planning and control concepts in the Victorian synod of the Uniting Church in Australia. The study revealed the potentially unique strategic facilitating role which budgeting and budgetary negotiation play in the religious organisation. Manifestation of complexities and contradictions in the process of organisational planning and control showed a latent blend of loose coupling, operational and resource balancing, and uncertainty buffering.

Goddard (2004) revealed that budgeting is argued to be the most important organisational process with respect to accountability. Therefore, the study focused on the relation between budgetary practice and perceptions of accountability. The study also claimed that "chameleon accountability" was occurring to describe the picture. The study has revealed the importance of the budgeting system for achieving accountability and governance. This was an unresearched issue and has important consequences for the design and use of budgets and for governance systems and structures.

A study of Norwegian hospital budgeting, Nyland & Pettersen (2004) investigated the relationship between budget, accounting information and the process of decision making at both strategic and operational levels. The study noted that loose coupling appears between budget decisions and actions at the top management level by practicing flexible budgeting. Talk and action at the top management level are often different, which might contribute to legitimising looser couplings further down the hierarchy.

A study in the context of early stage institutionalisation of accounting practice in devolved UK government sectors was done by Ezzamel et al. (2007). The findings showed that organisation secure legitimacy by practicing highly ritualised accounting and budgeting. Negotiations among actors who have divergent interests lead to a translation process in early stage institutionalisation accounting and budgeting practice which is neither linear nor stable.

Macinati (2010) analysed the perceptions of clinicians in the process of budgeting, and the ability of the budgeting process to affect clinical practice. The finding showed that the introduction of budgeting in clinical practice was a ceremonial process, led by externally imposed NPM reforms. It reflects that societal expectations of acceptable practice, as the technical imperative of fostering rationality, need to be highlighted in this study.

Lapsley et al. (2011) explored budget behaviour representing negotiations between principal and agent. The study has concentrated on budget settings in coalition and minority governments represented in the political environment of parliament. Moreover, this study intended to understand the manner in which budgets are negotiated in the contexts of such political environment. Moreover, this study tried to explore behind the scenes of formal negotiation processes in budgeting settings.

Seal & Ball (2011) revealed that that there were two budgetary games going on in their case study. One was within a settled framework, when local players could exploit their

local knowledge to win short-term tactical victories (e.g., panic cash increases). The second game was more long-term, involving structural change, or the game of reform, when the central government was able to manipulate the rules so that its power was increased.

Christensen & Legreid (2012) explored variations of attitudes and behaviour of financial civil servants in the budgeting and accounting practices of certain Norwegian agencies. The study highlighted that the servants have their own characteristic profiles and a task-specific perspective. These characteristics are represented by the finding that having budgeting, accounting and supervising as the main tasks, has major explanatory power with respect to variations in civil servants' attitudes and behaviour.

Boex et al. (2000) reviewed multi-year budgeting practices in six developed countries: Australia, Austria, Germany, New Zealand, Great Britain, and the United States. The study discovers five relevant lessons with regard to the practice of multi-year budgeting. First, a multi-years' budget could be a management tool and a valuable fiscal policy. Second, the chosen approaches should reflect a country's policy objective, unique budget and administrative capabilities. Third, a multi-years' dimension should be introduced gradually. Fourth, the role of a multi-years' budget, to encourage the constructive involvement of line ministries, is valuable. Fifth, the usefulness depends on the reliability and accuracy of the medium-term budget estimates.

### 2.3.2 Performance measurement in budgeting reforms of developed countries

One specific topic in budgeting reform, around public sector budgeting, is performance measurement. The change from traditional budget to performance budget, as new public financial management, thereby promoting better public management, has also attracted scholars to work in this area. In this topic area, researchers usually concentrate on practice performance measurement in budgeting, and its role either as an analytic tool or as a decision-making tool. Moreover, practice of performance measurement in each stage of budgeting is the centre area of research. The plurality of the work in this particular research field is presented below.

Wang (2002) claimed that performance measurement is employed in various stages of public budgeting in a study of county government at the USA. The political environment, where a variety of players seek to protect their interests in the process of budget allocation, is the reason of insignificant role of performance measures utilisation in budget allocation. Performance measurement may play its role in budget allocation decisions if it is compatible with the political environment.

Legreid et al. (2006) examined the practice of performance measurement by exploring how the Norwegian system of performance management has been adopted in Norway's civil service organisations. The requirement for success to fine-tune performance measurement, and make performance reporting and steering more sophisticated, is a high level of mutual trust among the actors involved .

Schick (2007) highlighted a review of performance budgeting and accrual budgeting that sat more closely to analytic tools, rather than decision tools. In a simple way to differentiate, analytic tools empower budget makers, whereas decision tools will constrain budget makers. Analytical tools allow scope for judgment and subjectivity to be involved in the budgetary process. Meanwhile, decision tools would make budgeting less judgmental and more objective.

Verbeeten (2008) investigated the relationship between performance management practices and performance in public sector organisations. The research found that the definition of clear and measurable goals is positively associated with quantitative performance as well as qualitative performance. Moreover, the use of incentives is positively associated with quantitative performance yet unelated to qualitative performance.

Chang (2009) assessed the practice of performance measurement in the NHS. The study focused on the impact of institutional pressures upon the formulation of performance measurements and information. The study revealed that the government's political achievement are more important than the intention of using performance measurement for rational public sector reforms.

Rautiainen (2010) studied budgeting and performance measurement practice in a local government context by looking at the interaction of organisations with micro-institutional norms. The findings suggest that decoupling of formal PM rules and routines occur if there are conflicting normative or social pressures among decision makers, in this case is among the City Board members. This study implicitly highlighted that there are connections between budget discipline, performance management usage and the independence of board members.

Ho (2011) carried out a case study of the city of Indianapolis and argued that performance measurement can significantly impact on budgeting decision making. The study also highlighted that the role of performance may occur at the programme level, rather than at the department level, as well as during the appropriation process.

Despite this study based on a single case, the findings are consistent with the results of previous research employing either survey or case study methods.

As a series of analyses, Rautiainen & Järvenpää (2012) provide more analysis on performance measurement systems (PMS) in the two Finnish cities. As legitimating tools, various practices of PMS could occur among unit organisations that are impacted by different institutional pressures. These findings implicitly highlight that institutional environments not only affect budgeting practice but also performance measurement practice.

### 2.3.3   Research into local government budgeting in developed countries

Studies into local government budgeting showed a trend for accountability improvement in local government. Distrust of the old traditions of management make the reforms relatively easily injected into the field. Previous research in local government budgeting in developed countries can be presented as follows.

O'Toole & Stipak (1988) employed survey research to view the efforts to achieve productivity improvement within local government budgeting practices. A performance based budget format has gradually replaced a line item budget format. The findings claimed that there is a trend for productivity improvement accessed by using performance budgeting in local government.

Poister & Streib (1999) surveyed municipal jurisdictions in the U.S to discover whether they  were using performance measures. The survey showed that motivation for the use of performance measures in cities is locally generated by the desire to have better accountability and to maintain accountability to the local public rather than to meet state or federal government requirements.

Seal (2003) employed institutional theory as a lens through which to view local government budgeting in the United Kingdom. Using this theoretical lens, the changes have been interpreted through deinstitutionalisation theory and it is possible to expect that new institutionalised practices will develop. For instance, new performance systems are being adopted as the use of modern instruments grows in practice, as distrust of the old tradition management methods of public service increased.

Goddard (2004) revealed that the budget system was highlighted as the most important organisational process with respect to accountability. The study focused on the relationship between practices of budgeting and perception of accountability in the UK local government. The way in which the practice of budgeting and accountability is perceived among four case studies of local government is quite different. The

differences have been unpacked using grounded theory research and Bourdieu's concept of habitus is used to sensitise formal theory based on inductive approach.

Kluvers (2008) surveyed 65 local governments in Victoria state, Australia, that reported employing programme budgeting. Agent and principal relationships had changed in the surveyed local governments due to the use of programmed budgeting. The involvement of managers in policy decision making was a result of programmed budgeting's application, when managers became involved in policy decision making such as in formulation of objectives or programme and performance measurement.

Melkers & Willoughby (2005) examined the impact of performance measurement information on the process of budgeting decision making and other local government operations. Particularly with budgeting, the survey found there is a small distinction between officials from county and city in their use of performance measurement for the process and purpose of budgeting. Active integration and consistency of measurement, throughout the process of budgeting, are important factors in determining real budgets.

### 2.3.4   Investigating the change of accounting in developed countries

As part of a package of financial management reforms, accounting change has been attempted in order to create better accountability of public sector organisations in every stage of the management process. The changes from cash to accrual accounting and budgeting also become a significant topic in the public sector accounting research. The research that has conceptualised the change of accounting in developed countries can be discussed as follows.

Carlin (2006) reported a study of accrual output based budgeting (AOBB) in the Australian state of Victoria. The study claimed that the AOBB system impacted on the creation of improved performance measurements in term of its supplied information; therefore it is possible to improve traditional financial management systems to be optimed in the process of resources allocation.

Pessina & Steccolini (2007) examined effect of budgetary and accrual accounting in Italian local government and found that local goevernment did not simply assume a perfect equivalence between budgetary accounting's establishment of accounts receivable and commitments on the one hand, and accrual accounting's revenues and expenses on the other. Moreover, the study revealed the relation between budgetary and accrual accounting seems to have increased their irreconcilability.

Timoshenko & Adhikari (2009) explored the accounting change of Russian central government. This research demonstrates that a new Russian public sector ideology has been considerably affected by overseas developments in the shape of large international organisations. With the Soviet model of accounting having gradually lost its relevance, the norm system of the Russian central government's accounting has become a recipient of these ideas from the international arena, as determined by the IMF, the World Bank, and the IPSASB.

### 2.3.5 Lessons of empirical findings from developed countries

Referring to the review of public sector accounting and budgeting research in developed countries, as discussed above, several lessons can be gained.

a. Implementations of budgeting and accounting reforms have been researched through practice in developed countries' context. Manifestations of complexities and contradictions in the process of organisational planning, budgeting and control appear in the form of loose coupling between budget decisions and actions (Parker, 2002a; Nyland & Pettersen, 2004). Interaction also between actors, which points to a dynamic, rather than static, model. This complexity aspect of the change has been related to the power and culture which exists in the organisation (Kluvers, 2001)

b. Common findings show that organisations secure legitimacy by practicing accounting and budgeting with highly ritualised procedures or by reflecting societal expectations (Ezzamel et al., 2007; Macinati, 2010). Additionally, negotiations among actors who have divergent interests lead to a translation process in early stage institutionalisation accounting and budgeting practice which is neither linear nor stable. Moreover, budgetary games were also highlighted by several scholars, including Seal & Ball (2011).

c. The role of performance measurement is relatively unclear, whether as analytic tools or decision tools; a point that has become a debating issue. Scholars such as Schick (2007) claimed that it is close to analytical tools, but others claim performance measurement could support decision making. The role of performance in decision tools may occur at the programme level, rather than at the department level and during the appropriation process (Ho, 2011)

d. The use of accrual accounting seems more acceptable in developed countries such as Australia, than in developing ones, due to its benefit in providing information for decision making (Carlin, 2006). However, the cost and benefit of the accrual accounting model should be carefully taken into account before implementing the model (Anessi-Pessina and Steccolini, 2007; Timoshenko and Adhikari, 2009).

## 2.4 Research into public sector and government accounting in the context of developing countries

This section of the literature review focuses on previous research into government accounting in developing countries. Depart from the development of public sector accounting, the reform of government accounting become global trend which was mostly related to the implementation of NPM. The adoption of International Public Sector Accounting Standard (IPSAS) for government institution is an example of how developing countries have been strongly influenced by theories from developed countries (Rahaman et al.,1993; (Adhikari and Mellemvik, 2010). With regard to the intention of presenting literature review of government accounting studies, the section begins with the general topic of public sector budgeting and accounting studies , and then continues with the government accounting research investigated in the context of developing countries. The discussion of government accounting literatures include the studies of budgeting investigated in government organisations. Moreover, local government budgeting studies are specifically discussed to provide more explanation about the context of being studied. Next, governmentaccounting changes in developing countries are then further discussed in order to support the literature review of the government accounting studies. In summary, lessons from the context of developing countries are presented, based on previous research findings of public sector accounting and more specific on government accounting and budgeting .

### 2.4.1 Studies of practices of public sector budgeting and accounting in developing countries

Similar to the developed countries' context, environmental settings are clearly of relevance to the practice of budgeting and accounting in public sector organisations. Caiden (1980) argued that to obtain better prescriptions in order to replace unsuccessful recommendations, much more investigation of actual budgeting practices will be required. In addition, the budgeting practice reflects a particular institutional requirement, rather than  a role for planning and controlling technical operations. For instance, the context of Bangladesh (Alam and Lawrence, 1993), and the context of Ghana (Rahaman and Lawrence, 2001). Despite contextual practice, other studies also explained results of the changes.  (Ouda, 2003; Bastida and Benito, 2007). Previous research in the area of budgeting and accounting conducted in various public sector organisations are presented below.

Alam & Lawrence (1993) revealed budgeting practice in a public sector commercial organisation in Bangladesh. The study claimed that the practice of budgeting may

reflect a particular institutional requirement and organisational context, rather than a role for planning and controlling technical operations. Conformity with external requirements is found in the practice of budgeting and this finding is consistent with institutional theory.

Rahaman et al. (1993) provided descriptive literature of public sector accounting and financial management in developing countries, in terms of theme, methodology and method. The review claimed that few studies explicitly and substantively construct theories about third world government accounting and financial management in developing countries. Most studies of developing countries' accounting practices and financial management in the public sector have been significantly influenced by theories from developed economies.

Anipa et al. (1999) reported MTEF implementation of Malawi's and Ghana's budgetary practice. The important points relate to the benefits and difficulties of MTEF implementation in both developing countries. The benefits of the MTEF process relate to the stakeholders' advantages, such as getting better information for better decision making regarding the cost of activities, a more transparent allocation of resources, and improving managers' awareness of the scarcity of resources

Rahaman & Lawrence (2001) employed a perspective of negotiated order to understand accounting practice in its organisational context, with a case study of a major electricity utility in Ghana. The main conclusion of the paper is that future empirical research in accounting and financial control would be greatly enhanced through recognising that an accounting system's design, maintenance and change processes are interwoven in organisational negotiation processes. Structures, as reflected in rules and procedures that persist over time, are both the medium and outcome of negotiation processes.

Ouda (2003) revealed implications of the implementation of the budgeting and accounting reforms in Arab countries. The implications are legislative change, management reform, setting the required accounting standards, development of an integrated approach to financial management reform, change in the information technology capacity, establishing an appropriate communication strategy, develop theory building skills and capacity.

Bastida & Benito (2007) examined transparency in central government budget practices of 41 countries which are informed by the best practices for budget transparency document required by OECD. The study claimed that transparency is negatively correlated with corruption and positively correlated with economic development. OECD

members do not seem better in terms of transparency compared to non-member countries.

Schiavo-Sampo (2009) studied the practice of MTEF in developing countries. The study revealed that a multi-year fiscal and expenditure forecast, in order to prepare projection for the annual budget is important in every country. Moreover, it is an important analysis for preparing a projection unit and macro-fiscal analysis in MTEF practice. However, technical skills such as statistical analysis and limitation calculation of capacity, should be matched properly with the existing budget and accounting system.

Galera et al. (2007) surveyed the contribution of international accounting standards to implementing NPM in developing and developed countries; the study found different results in both categories of country. The proposed agenda to implement fair value accounting in developing countries is related to the difficulty in estimating current value as the approach is  less popular in the practice compared to developed countries.

Jayasinghe and Wickramasinghe (2011) studied the practice of development accounting which explain the changing mechanism of resource allocation of a village in Sri Lanka. The study revealed that the prescribed mechanism of resource allocation could contradict with local politic and patronage relations. The coexistence of two competing structural logics between development logic and cultural-political logic have imposed competing demands on the field structure.

Despite the practical experience of various public sector organisations, the implementation of performance budgeting in public sector organisations also become important research area in developing countries' context.  This kind of research often focus on the use of performance measurement in budgeting reform. The studies reveal several issues highlighted in the developing countries, such as obstacles of implementation (Mimba et al., 2007; Larbi, 2010; Shah and Shen, 2007; Larbi, 2010), and commitment to the implementation (de Waal, 2007).  Mimba et al. (2007) found that a growing involvement of stakeholders leads to an increasing need for performance information but the low-institutional capacity could not meet that need to satisfy the stakeholders. Shah & Shen (2007) conclude that performance budgeting seems not to work properly and may not improve performance significantly without some type of incentive system. However, most of studies revealed that commitment, dedication and stamina for making performance management exist in the context of public sector organisation in developing countries. Continuous attention and improvement needs to be resulting from management (de Waal, 2007).

2.4.2    **Government accounting of developing countries**

The context of government organisation in the implementation of public sector accounting reform of developing countries have demonstrated distinct characteristic compare to the developed countries' experience. With respect to discussion of the specific attribute of developing countries, this section provides a critical review which focuses specifically on literatures regarding government accounting of such countries. Generally, the role of international financial institutions, namely the World Bank and the Asian Development Bank (ADB), are importantly revealed during the adoption of International Public Sector Accounting Standard (IPSAS) in South Asia countries (Adhikari and Mellemvik, 2010; Adhikari *et al*., 2015; Yapa and Ukwatte, 2015). The review include both  central government and local government context.

The adoption of accounting change such as accrual accounting in the Nepalese central government seems difficult to be implemented successfully (Adhikari and Mellemvik, 2011). Moreover, a great variation in the approaches adopted for accrual accounting also exist among the countries which have implemented the accounting change (Adhikari and Mellemvik, 2008). Actors who involve in the process of the reform could interpret differently about the accounting change and often percieve with arguments both support for and against the reform. Hence, diffusion of IPSAS have existence in the practice among the countries. Recent study of Adhikari *et al.* (2015) revealed that the adoption of IPSAS in Nepalese public sector organisation has become more of rethoric than reality. In this respect, Adhikari *et al.* (2013) previously argued that the accounting change institutionalised without understanding the context of developing countries, such as in Nepal and Sri Lanka, may create the practices which bias from the intended reform. The reform may produce more as a symbol of legitimacy and a decoupling of actual practice instead of creating to any development in public sector management and public service delivery.  With regard to this empirical finding, there is a need to understand the preconditions of a country before implementing public sector accounting change.

In addition, the expected benefit of accounting reform also inspire many developing countries to reform their local government financial management. Most of the countries began with their central government and then continue to implement the accounting change in their local governments. Accountability development and corruption eradication of local government are a popular agenda of the accounting reform advocated by both central government and local public community. This particular contextual environment of local government in developing countries have been revealed and become a salient background of the research identified in the works such as Tambulasi (2007) in Malawi's local government; Goddard and Mzenzi, (2015) in Tanzania. With regard to the accounting reform,  the most important issue in the

implementation of local government accounting reform is the role of political environment in influencing the use of accounting information for decision making. Recent study of Mbelwa (2015) conducted survey to actors in Tanzanian Local Government which include politician and administrative actors to explain the factors influencing the use of accounting information.

### 2.4.3  Research into local government budgeting in developing countries

In contrast with managerial development in the developed countries' context, studies of local government budgeting in developing countries showed contextual obstacles such as lack of management technique and minimal internal control. Therefore, the practice of budgeting needs not only to conform to the required reform but also  more multi-dimensional approaches that are concerned with responsiveness, efficiency and accountability. Previous research into local government budgeting in developing countries can be instanced as follows.

Ott & Bajo (2001) identified problems of budgeting in Croatian local governments that could be divided into those connected with the number and the size of the local government units, the budget itself and the budgetary process. Difficulties stemming from lack of management techniques and internal control, activities and rewards are examples of the problems noted in this study. These obstacles elicited recommendations for system improvement to strengthen the budget, and to develop budgeting techniques and budgetary processes in Croatia local governments.

Schaeffer & Yilmaz (2008) provide a guideline and suggestions for development to strengthen the practice of local government budgeting in developing countries. The prescription starts with the contention that strengthening accountability and transparency will clearly support decision making, not only local budgeting but also budgeting at the national level.  Moreover, community participation is also highlighted as an important aspect for enhancing local government accountability through the budgetary system that can combine legal, political, and administrative mechanisms with proactive community involvement.

Local government performance measurement practice in developed countries has been reviewed, showing different evaluation practices in developing countries (Andrews & Shah, 2003). Measurement of performance in developing countries needs more than the factors just listed. A more multi-dimensional approach that is also concerned with responsiveness, efficiency and accountability is claimed as a more pragmatic budgeting model in developing countries.

It appears to this researcher that very few studies of local government budgeting in developing countries have been conducted or identified post-publication.  Therefore, local government budgeting studies need to be explored more to provide empirical research data in the context of developing countries. This study will employ interpretive approaches to understand the budgetary practices of local governments in Indonesia.

### 2.4.4 Investigating the change of government accounting in developing countries

The change of government accounting in developing countries seem similar to several developed countries' experience with regard to the gap between expectation and realisations. The experience of developed countries' context  can be identified in government accounting study of Dutch (ter Bogt and van Helden, 2000), Rusia (Timoshenko and Adhikari, 2009), and Italia (Caccia and Steccolini, 2006). The gap has been analysed as thet result of environmental context that might differ among the countries and then create particular practice. For instances, the findings in the UK central government justified the gap due to on-going process of the change that lead to the lack of success story of the reform's implementation (Likierman, 2000). Similar justification was argued by Caccia and Steccolini (2006) proposing traditional shared values of Italian government that are salient factors in implementing effectively the change.

Differ from the experience of developed countries,  the context of developing countries showed several common problems, such as weak accounting infrastructure, relatively inexperienced and passive public participants and problems with estimating current values of accounting approach. Tooley et al. (2010) made the point that within the context of developed countries the stakeholders are more sophisticated and have a greater capacity to exercise their rights for information, as compared to the developing countries . Improvements including accrual accounting seem to occur continuously in the process of reform for better financial management and control. Previous research in the area of accounting, conducted in developing countries, can be presented as follows.

Iyoha & Oyerinde (2010) studied the lack of accountability of public expenditure in developing countries without strong accounting infrastructures. The study identified that weak or strong accounting infrastructure impact on accounting practice, which in turn affects the accountability culture, and both have a mutual effect on one another.. Ambiguity of practice and counterproductive attitudes to the spirit of accountability in Tanzania, are examples that create obligations to disclose the government's activities

to the public; but, at the same time, a government has a right to withhold information for national security reasons.

Adhikari and Mellemvik(2011) argued that coersive and normative pressures are the major forces driving the country's effort to implement accrual accounting. Nepalese government accounting reforms disseminated by internal organisations highlighted a precondition essential for the succesfull implementation of accrual accounting. This study also promotes further research on accrual accounting implementation in the other developing countries in order to investigate important factors that lead to successful implementation.

Saleh & Pendlebury (2006) revealed that the accounting basis, used by the federal and state governments in Malaysia, is modified cash accounting. The system records transactions based on cash accounting throughout the year but is modified to include those transactions that relate to the financial year that occurred within one month of the financial year's end. The study also suggests that the primary impetus of this reform was the need for improved information for financial management and control.

Refer to empirical findings discussed above, there is a primary conclusion regarding the role of international organisation to dessiminate and promote the change of government accounting in developing countries. Succesfull implementation are more rhetorical manner instead of instrumental development. However, most of government accounting reforms are studied in the context of central government and mostly concentrated on implementation of accounting approach either accrual or cash basis. Very few studies focused on local government context and more specific on budgeting practice.

### 2.4.5  Lessons of empirical findings from developing countries

Referring to empirical findings in developing countries, several lessons are summarised below.

   a.  Few studies exist that investigate to what extent budgeting is conducted or what successful budgeting reforms have taken place in poor countries. Actual practice should carefully investigated to create a better prescription, in order to replace unsuccessful recommendations of budgeting and accounting reforms.
   b.  Practice of budgeting may reflect a particular institutional requirement and organisational context, rather than a role for planning and controlling a complex technical operation. Conformity with external requirements is found in

the practice of budgeting and this finding is consistent with, and possible to
use to extend institutional theory (Alam & Lawrence, 1993).

c.  The review of developing countries' studies claimed that few studies explicitly
and substantively construct theories about third world government accounting
and financial management in developing countries. Most studies of developing
countries accounting and financial management in their public sectors have
been significantly influenced by theories from developed economies (Rahaman
et al., 1993).

d.  Prescription for an integrated approach to financial management reforms and
continuous improvement are needed to bring about more effective reforms in
developing countries. The integrated changes are legislative changes,
management reforms, setting the required accounting standards, development
of an integrated approach to financial management reform, changes in
information technology capacity, establishing an appropriate communication
strategy, and building skills and capacity.

e.  Performance budgeting has provided beneficial tools for performance
accountability and budget transparency. Moreover, performance budgeting
seems not to be working properly and may not improve performance
significantly without a culturally appropriate incentive system. The role of
transparency in developing countries is significant; several studies have claimed
that transparency is negatively correlated with corruption and positively
correlated with economic development.

## 2.5  Relevant studies for Indonesian local government budgeting research

This literature review is intended to provide complementary support for understanding
the research background of Indonesia as part of the developing countries' context.
Identified relevant studies and articles that need to be taken into account before
researching local government budgeting in Indonesia, are briefly presented below.

First, Indonesian budgeting reform is clearly related to decentralisation programme
(See. Guess, 2005; Hawkesworth et al., 2009; Firman, 2009). A modern legal
framework of budgeting, such as performance budgeting, has been employed together
with Indonesia's rapid decentralisation (Hawkesworth et al., 2009). In addition, the
local government proliferation practice, as an implementation of Indonesia's
decentralisation reform, has resulted in a fragmentation of regional development, in
which many local governments consider themselves of their own little 'kingdoms of
authority'. (Firman, 2009). This particular context of Indonesia basically represent
cultural constraints to modern systems of administration (Guess, 2005).

Second, problem of local government refoms relate to cultural and political traditions that generally make power sharing difficult in Indonesia. Kristiansen et al. (2008) argued that there is a strong will to exercise power by some and a willingness to obey by others, which is combined with the right to withhold information by some and avoidance of questions by others. Marwata (2006) revealed that both rivals and allies appear amongst reform drivers in the process of accounting reform. The study shows that the process of governmental accounting reforms in Indonesia is driven by many parties and the nature of their interactions;  however, these activities do not seem to reflect the interests or concerns of the local communities. In addition, the reform problems are mostly related to limited quality and quantity of human resources, which resulted in a lack of readiness and technical abilities to implement the regulations. (See. LGSP, 2007; Harun, 2007)

## 2.6   A synthesis of the literature review, with particular reference to interpretive research

As discussed in the previous sections above, this literature review focuses on investigating empirical work relevant to budgeting and accounting that has been carried out in the area of public sector organisations, particularly in local government institution at developing countries. This section synthesises the  literature review to justify interpretive research as the model chosen for use in this study.

First, the underlying complexity of NPM implementation suggests further research, including this local government budgeting study, have to take into account backgrounds of social, political and economic contexts; as well as whether the budgetary concepts and approaches had particular impact on practices (Parker, 2002b). Using an interpretive approach provides an opportunity to understand the practice of budgeting, when the complexity of interaction between actors occurs as a result of the environmental background of a specific or particular organisation. Functionalists could not explore social interaction between actors in the organisation.

Second, inductive theory generated from local government budgeting practice is needed for improved prescription in a developing countries' context, since most theory is derived from developed countries experiences. Therefore, an appropriate approach is interpretive, since positivism may not provide the opportunity to generate a theory inductively.

Third, the practice of budgeting may reflect a particular institutional requirement and organisational context, rather than a role for planning and controlling technical

operations. The review of developing countries' studies claimed that few studies have explicitly and substantively construct theories about third world government accounting and financial management in developing countries. Most studies of developing countries' accounting and financial management in the public sector have been significantly influenced by theories from developed economies (Rahaman et al., 1993).

Fourth, the change to performance budgeting and cash towards accrual or a modified cash basis have been implemented in developing countries. This study is needed to understand particularly practices in Indonesian local governments, where the nature of political interaction amongst reform drivers might create problems for the prescribed reform implementation. The functionalist approach may not be possible to use, in order to satisfy such a research intention.

## 2.7 Summary

This chapter has discussed the literature review of the study presenting critical review of background and context to the research instead of the intention of developing hypothesis. The review starts with a discussion about public sector budgeting and accounting reforms and then more focused generally on government accounting research. Literatures of public sector budgeting dan accounting change includes overview of budgeting and government budget, the specific nature of local government budgeting and the reforms of public sector accounting. As conceptual umbrella of government accounting literature, public sector accounting development are discussed which depart from the experiences of public sector reform in developed countries. Critical review of public sector accounting literatures are discussed to provide various findings that have been explored in the previous studies. Variety of contexts are illustrated in the discussion about practical experiences between developed and developing countries. Particularly, the chapter of literature review also highlights critical review of studies in government accounting of developing countries. Depart from the empirical evidence of public sector budgeting and accounting studies in developed countries, government accounting literatures of developing countries are discussed to provide particularly background of the research. The literatures demonstrate the presumption that very few studies of government accounting have been explored in the context of developing country. Next, the literature review also present a justification for doing interpretive research and it is not designed to develop an hypothesis. Again, the literature review is focused on framing the background of the research and the importance and relevance of doing this type of study. The next chapter presents the methodology of this research, that explains interpretive accounting research and a grounded theory strategy.

# Chapter 3

# Research Methodology

## 3.1 Introduction

This section starts with a discussion of the research paradigm that provides a broad understanding of the philosophy of social science research, followed by research paradigms particularly relating to accounting studies. Justification is then offered for the interpretive perspective employed in this study. This section also provides an explanation of grounded theory as a method used in this study. Finally, the chapter closes with the detail of the grounded theory research process conducted in the area of Indonesian local government budgeting practice.

## 3.2 Research paradigm

Ryan et al. (2002, p.7) highlight that research is a process of intellectual discovery. It combines transformation of researchers' knowledge and understanding of the world around them. Based on this contention, researchers may choose their own research methods and may have different approaches from other researchers, although studying a similar topic or area of research. As a generic insight, the available option is commonly a dichotomy involving quantitative and qualitative research methods. The researcher must be able to explain their assumptions about how research is conducted and the role of researcher. Every researcher might have their own set of philosophical assumptions that explicitly and implicitly directs his or her focus to the group of research paradigms and methodologies. For that reason, the central discussion in this section provides a fundamental understanding of  the research paradigm in social research. This discussion intends to examine the philosophical assumptions of social science and accounting research by elaborating the sociological framework of Burrel & Morgan (1979) in order to depict conceptually varied research paradigms in conjunction with the disciplines of study. Subsequently, this section provides discussion and justification of the preferred research paradigm in this accounting study.

### 3.2.1 Philosophical assumptions of social science research

As depicted previously, this section discusses some of the fundamental assumptions in social science research. Much of the discussion will be based on two fundamental assumptions, as explained in the sociological framework of Burrel & Morgan (1979);

the analysis of assumptions regarding the nature of social science and assumptions regarding the nature of society. The former analysis highlights four sets of assumptions with regard to the nature of social science related to ontology, epistemology, human nature and methodology. The latter analysis is concerned with assumptions about the nature of society, comprised of two dimensions: the sociology of regulation and sociology of radical change.

Ontology is concerned with the construction of existence. The central ontological issue is how researcher view the social world; whether as a nominalist position or as a realist position (Burrel & Morgan,1979). The nominalist, also termed as idealist by Ryan et al. (2002), holds the assumption that reality exists within the mind of the subject. Knowledge can be assumed as a social construct and reality is a construct of the mind. On the other side, realists consider reality as independent from human perception. It is not something produced through human minds, nor is it the product of individual cognition, but the reality is assumed as an objective entity. Realists believe that the social world is not only assumed likely as natural world where reality is external and objective but also has a concrete, tangible and hard existence (Burrel & Morgan,1979).

Epistemology is related to assumptions of how a researcher acquires knowledge, whether characterised as positivist or anti-positivist. Generating knowledge from a positivist point of view is based upon understanding the social world from outside; as an objective observer in natural science. On the other hand, the anti-positivist researcher agrees that understanding the social world cannot be understood by employing methods appropriate to natural science, but can only be understood from the point of view of the actors who are directly involved in the observed activities.

Associated with the two assumption discussed above, human nature is another salient analysis. One extreme perspective about human nature, namely the determinist view, contends that the environment and situation around humans, completely determine the thoughts and activities of human beings. In contrast, voluntarists who assume that man is "completely autonomous and free-willed" offer another perspective about types of human beings (Burrel & Morgan,1979, p.6). These two perspectives about human nature provide a comprehensive explanation about the relationship of man and society that must be taken into account as essential elements in developing social science theories.

The last social science assumption to be discussed relates to a methodological debate about whether to choose an ideographic or nomothetic approach. Choosing methodology in research is mostly related to a consequence of preferences resulting

from ontological, epistemological and human nature filters. Realism, positivism and determinism tend to favour the nomothetic model as a methodological choice, whilst an ideographic methodological selection relates to the assumption that nominalism is the ontological perspective, anti-positivism is the chosen epistemology, and human nature is regarded as voluntarism. The nomothetic approach considers the process of research as systematic, utilising quantitative techniques and adopting the natural science model in constructing scientific tests. This approach supports the assumption that research could be replicated by other scientists and is therefore standardised in terms of method. On the other hand, ideographic investigation of the social world is based on obtaining first-hand knowledge. This approach conducts a study subjectively; the researcher observes the daily life behaviour of social actors, investigated from inside the observed research object and mostly supported by qualitative data.

With respect to assumptions about the nature of society, Burrel & Morgan (1979) suggest notions sociology of 'regulation' and 'radical change' as two central themes. The sociology of regulation assume cohesiveness and unity exist in the society that emphasize on stability, integration, functional co-ordination and consensus  Burrell and Morgan (1979). In contrast, the sociology of radical change is concerned with revealing answers relating to deep-rooted structural conflicts, modes of domination and the unequal distribution of power; all relevant explanations may provide a potential emancipation for radical change (Hopper and Powell, 1985). Therefore, people may view the nature of society as a logic transformation process, or as a result of conflicts that are created by certain individuals or groups of people in society in order to dominate others. In addition, it is important for social science researchers to note, in respect of change, whether studies conducted for obtaining explanations may result in radical change or the opposite.

### 3.2.2  **Four paradigms of Burrell and Morgan (1979)**

Departing from the discussed research philosophical assumptions above, Burrell and Morgan (1979, p.21) conceptually generate an important framework, namely "Two Dimensions: Four Paradigms", which is offered as coherent scheme for the analysis of social theory. The scheme refers to the contention of the 'subjective-objective' dimension for the analysis of social science characteristics linked to dimension of 'regulation-radical change' as an assumption relevant to the social world. The relation of both dimensions can be conveniently brought together in the figure 3.1 as follows.

Figure 3. 1 Burrell and Morgan's (1979) sociological framework

| | SUBJECTIVE | OBJECTIVE |
|---|---|---|
| THE SOCIOLOGY OF RADICAL CHANGE | Radical Humanist | Radical Structuralist |
| THE SOCIOLOGY OF REGULATION | Interpretive | Functionalist |
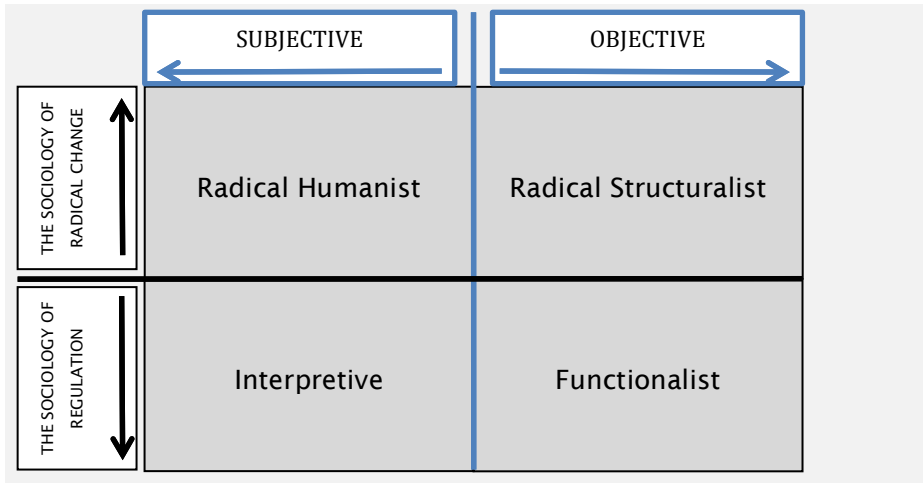
Source: Burrell and Morgan (1979)

Interpretive and functionalist paradigms are both positioned in dimensions in which the sociology of regulation is assumed as the nature of society. The former paradigm is operated in the subjective continuum where it tends to be nominalist, anti-positivist, voluntarist, and ideographic. The latter perspective relates to the objective continuum as assumed in the realist, positivist, determinist, nomothetic approach. Radical humanism and radical structuralism are similar in terms of subjectivist-objectivist views; however the paradigms are placed in the sociological dimension of radical change.

On the other hand, the framework has been criticised by Chua (1986) who highlighted the problem of strict dichotomies in the subjective-objectives dimension. The framework also accepts an idea that scientific truth and reason are highly relative. Chua (1986) reflects that relativism is self-referential and paradoxical; therefore since truth is relative, what is taken as true may also be false.

Despite the disputes, the framework of Burrel and Morgan (1979) has made a massive contribution, as an initial framework, in debating various paradigms in social science and organisational research. Specifically, in accounting research the framework has become a foundation for many academic writers, such as Hopper & Powell (1985), Laughlin (1995) and Ryan et al. (2002) . The framework provides a starting point for academic scholars in order to offer philosophical justification for alternative accounting research methodology.

### 3.2.3   Various paradigms in accounting research

The framework of objective-subjective dichotomy of Burrell and Morgan has been criticised by several accounting scholars through proposing new dimensional perspective regarding accounting reasearches' categorisation. Using the four paradigms previously discussed, Hopper and Powell (1985, p.432) divided studies concerning the organisational and social aspects of accounting into three main categories of the taxonomy of accounting research: functional, interpretive, and radical theories. With an extended point of view, Chua (1986) has categorised two broad groups of accounting research: namely mainstream and alternative accounting. More specifically, the paradigms of functionalism and interpretivism are labelled as mainstream accounting research and interpretive research respectively; radical theories are grouped as critical accounting research (Ryan et al., 2002).

Differ from these research paradigms clasification, Laughlin (1995) categorised accounting research into three dimensions: theory, methodology and change. These dimensions related to the methodological choices of researchers characterised with low, medium and high parameters.  Laughlin theorise that categorisation of the theory choice relate to the level of prior theorisation, while the role of the investigator determine the methodology choice. The investigator is immaterial to the research process in high methodology,  while the investigator is encouraged to participate in the research process in low methodology. The change choice is related to the investigator's concern regarding the research goal whether investigating what should be done or otherwise investigating what have been done in the practice. This classification greatly contribute to the removal of the subjective-objective problematic. However, the main accounting paradigms remain as mainstream, interpretive, and critical explained by Chua (1986).

Various paradigms in accounting research, based on a classification from Chua (1986), are presented in the figure 3.2 below. This section discusses these three main paradigms of accounting research.

Table 3. 1 Chua's paradigm in accounting research

| Focused Assumption | | Mainstream | Interpretive | Critical accounting |
|---|---|---|---|---|
| *Belief about knowledge* | Epistemological | Theory and observation are independent of each other | Theory is used to provide explanations of human intentions. | Criteria for judging theories are always temporal and context bound |
| | Methodological | Quantitative methods are favoured to provide a basis for generalisation. | Its adequacy is assessed via logical consistency, subjective interpretation, and agreement with the actors' common-sense interpretations. | Social object can only be understood through a study of their historical development and change within the totality of relations. |
| *Belief about physical and social reality* | Ontological | Empirical reality is objective and external to the subject | Reality is socially created and objectified through human interaction. | Empirical reality is characterized by objective, real relations, but transformed and reproduced through subjective interpretation. |
| | Human intention and rationality | Human actors are essentially passive objects, who rationally pursue their assumed goals. | Human action is intentional and has meaning grounded in the social and historical context. | Human intention and rationality are accepted, but have to be critically analysed because human potential is alienated through false consciousness and ideology |
| | Social order/conflict | Society and organisation are basically stable, and dysfunctional behaviour can be managed through the design of control systems. | Social order is assumed and conflict mediated through shared meanings. | Fundamental conflict is endemic in society because of social justice. |
| *Relationship between theory and practice* | | Accounting is concerned with means, not end – it is value neutral, and existing institutional structures are taken for granted. | Accounting theory seeks to explain action and to understand how social order is produced and reproduced | Theory has a critical imperative, in particular the identification and removal of domination and ideological practices. |

Source: Summarised from Chua (1986)

First, the mainstream school of thought relies on the belief about knowledge that theory and observation are independent of each other. This belief departs from an ontological perspective, arguing that empirical reality is objective and external to the subject under investigation. Human actors are essentially passive objects who rationally pursue their assumed goals. Related to accounting research, these beliefs support the perspective that accounting is concerned with means and not ends. Therefore, it is value neutral, and existing institutional structures are taken for granted. Researchers in this school of thought are categorised in the terminology such as positivist, realist, instrumentalist and conventionalist approaches (Laughlin, 1995). Mainstream researchers support the adoption of a scientific approach, which emphasises quantitative methods.

Second, differing from the mainstream researchers, interpretivism supports the point of view that accounting theory seeks to explain actions and to understand how social order is produced and reproduced. An interpretive accounting methodology attempts to describe, understand and interpret the meanings of actions practiced by organisational actors who are being influenced by, and influencing, their social environment. In an epistemological perspective, theory is used to provide explanations of human intentions. This belief departs from the ontological point of view that reality is socially created and objectified through human interaction. The instance of methods employed under this methodological umbrella  are ethnomethodology, symbolic interactionism and grounded theory (Laughlin, 1995; Parker and Roffey, 1997).

The last critical accounting researchers are informed by the epistemological belief that criteria for judging theories are always temporal and context bound. They support the methodological perspective that social objects can only be understood through a study of their historical development and change within the totality of relations. Researchers in critical accounting studies utilise theories such as structuration, Marxism, German critical theory, and French critical theory (Laughlin, 1995; Ryan et al., 2002). They support the idea that theory has a critical imperative; in particular the identification and removal of domination and ideological practices.

Interpretive and critical approaches have similarities in terms of subjective values of the social world. These two approaches disagree with the mainstream school of thought regarding objective views of empirical reality.  Hopper and Powell (1985) argued that interpretive accounting research focus more on how accounting is socially created and objectified through human interaction; while the critical approach concentrated on empirical reality, transformed and reproduced through subjective interpretation. These two approaches differ fundamentally in beliefs about social reality. Critical perspectives support that fundamental conflict is endemic in society

because of social justice. Interpretivism views conflict of social order as being mediated through shared meanings and replaced by consensus.

The next section in this chapter discusses the rationale of why this research utilises the interpretive approach to study the practice of Indonesian local government budgeting.

### 3.2.4 **The choice being interpretive**

This study principally employs an interpretive approach as a research paradigm; grounded theory is utilised as a device to generate theory drawn from data. As part of social science, academic literature in accounting and management methodology mostly also agrees that the research paradigm present the philosophical foundation chosen by a researcher and it is much more complex than merely choosing a methodology (Gill and Johnson, 2010; Ryan *et al.*, 2002). The paradigm of study represents the values and beliefs held by the researcher. In order to provide an explanation, the chosen paradigm in this research is made with several justifications.

The decision to employ a certain philosophical assumption reflects the explanation based on ideological classification of accounting and organisational research, as suggested by Burrell and Morgan (1979), Hopper and Powell (1985) and Chua (1986). Referring to Burrell and Morgans's four research paradigms as a frame of references, the interpretive paradigm locates on a subjective continuum where its ontological, human nature and epistemological features are viewed as opposite to the objective continuum. Unlike functionalism, the interpretivist paradigm focuses on individual meaning and perception of actors involved in the observed reality rather than "any independent reality that might exist external to them" (Hopper and Powell, 1985, p. 446). Practices of budgeting within an organisation may be seen as social practice, rather than treated as concrete material, as in the field of natural science. As an illustration, the measurement used by the actors involved in budgeting practice cannot represent any ontologically objective base, due to issues such as practical estimation, subjectivity and judgments that inevitably occur during practice. Therefore, reality in the practice of budgeting cannot be separated from individual perception as social reality within an organisation.

Understanding the processes in an organisation as reality of social construction, through "which human beings concretize their relationship to their world" is believed an appropriate way favouring epistemology (Morgan and Smircich, 1980, p. 493). In addition, the choice of an interpretive paradigm in management accounting studies, such as budgeting practices, starts with the ontological view. This assumes that an

organisation itself is an unstable reality due to the individual's actions within that organisation being dynamic. Human beings not only respond to the social world but also actively contribute to the social world's creation. As an illustration, Hopper and Powell (1985) suggest the use of the interpretive research method to obtain a better understanding of how the meaning of accounting is socially generated and sustained. Chua (1988) argued that interpretive accounting research attempts to capture more accurately the lived experiences of the actors being studied as the interpretive accounting research seeks to understand the social nature and the social world of accounting practices.

Similar to functionalist research, interpretivism is on a legislative continuum, which is not intended to view society as being composed of contradictory elements and, as such, forms a critique of the "status quo". Interpretive research is based on the researchers' perspective that agrees with current phenomena as a consensus. Laughlin (1995, p.67) acknowledged the legislation continuum as a low level "change" dimension, where "it refers to attitudes by researchers of maintaining the current situation that is being investigated". As the paradigm's justification, the practice of budgeting in local government resulted from the situation of global modes of new public management being perceived as a consensus toward the terminology of "accountingization" (Hood, 1995, p.93). The system has been injected and it is time to do more explanatory studies in order to understand the results of the change in the practical world where the consensus is applied. Moreover, as an alternative management accounting research, this kind of study will enhance our understanding of management accounting practice such as the many different rationalities, and the variety of the actors' ways in practicing management accounting with its meaning (Baxter and Chua, 2003).

In addition, the main objective of the research, understanding budgetary practice in a particular context, emphasize an intention to generate a theory from the existing practice instead of outlining from a critical theory approach. In fact, the Indonesian local government budgetary reform is regulated from national law derived from international trend of the NPM implementation. From critical theory perspective, the reform might be researched through the examination of power, rule and domination which might exist in the organisational reforms. However, this study focuses on the intention of researcher to understand practice of budgetary reform in the context of Indonesia local government. Implementation of performance based budgeting, as the global concept of NPM, were studied through the investigation of day to day practice. Moreover, this study intends to generate inductively a theoretical explanation which might be used to understand the context of study. This kind of theory can be employed as the source of knowledge to manage effectively the budgetary reform of

local government institutions. These two objectives of the research obviously lead to the interpretive study rather than the critical accounting study. Furthermore, the expected findings of the study could be further developed by employing either functionalist or critical perspective.

## 3.3 Grounded theory

The notion of grounded theory might be mistakenly perceived as theory. Grounded theory is an approach, usually with qualitative research, to the generation of theory drawn from data.  Different from most qualitative approaches, grounded theory place inductive research method which provide explicit strategies for defining and studying processes. Several basic parameters of grounded theory have been discussed intensely by several academics (Glaser and Strauss, 1967; Strauss and Corbin, 1990, 1998; Locke, 2001; Charmaz, 2006). Generally, grounded theory emphasises action and process, where its comparative approach and its unique method combine with particular coding and sampling strategies. These unique approaches also attract researchers in various fields that cut across disciplines and professions which are, in early application, mostly utilised in nursing studies. Although its plausible approach in generating theory inductively has attracted many researchers, the method has also been modified and sometimes adopted differently or partly from the model set out in the original monograph. For that reason, it is an obligation for researchers to justify their selected version of grounded theory, as it should be related to their area of research and objective.

This section discusses the grounded theory method with its common types in the actual implementation; its instances in accounting research as a lesson before utilising the method in this study. Finally, the justifications of the employed grounded theory method are discussed, together with the procedures used in this study.

### 3.3.1  Common types of grounded theory

There is a lack of agreement on what exactly constitutes grounded theory research. Generally, researchers appear to select either using the first grounded theory model (Glaserian) or the model known as Straussian (Parker and Roffey, 1997). Alternatively, researchers sometimes label their study as a grounded theory, although they may use only some rather than all the features of grounded theory (Locke, 2001). In fact, most grounded theorists in accounting studies seem to support the Straussian model as the preferable and dominant method, due to its prescriptive procedures that are more systematic in terms of its coding paradigm and analytic process, when compared to

Glaserian model; the Straussian model is also more easily followed by the researcher. This is particularly helpful for those with only limited empirical experience. However, it is possible to argue that these two schools of thought are the original departure point for grounded theorists in constructing their research method design. The following discussion focuses on the fundamental idea of both methods, with respect to the differences and similarity of both grounded theory models.

The Glaserian model is often known as classical grounded theory, being developed initially by Glaser and Strauss (1967). As a method, the model relies on an inductive approach that does not use any pre-conceived theory. The method also uses an element of deduction to allow theoretical sampling to take place. Despite the first version, this school of thought has provided fundamental strategies for the next versions of grounded theory such as offerings from Strauss and Corbin (1990) and Charmaz (2006).

The initial version of Glaser and Strauss (1967) had faith in collecting and analysing data as a simultaneous process. It proposed ways of focusing and integrating data collection while developing the data collection for theoretical analysis. The logic of grounded theory relies on starting with inductive data and then subjecting them to validation through specific coding and analytic practice, while collecting data (Glaser, 1998; Charmaz, 2006). In short, the Glaserian model rests on producing empirical foundation of the work and offering abstract, conceptual theories of the researched phenomena.

Another version of grounded theory mentioned above is the Straussian model that was developed by Strauss and Corbin (1990). This new genre of grounded theory has been adopted by many scholars and has become the most popular option since the method was introduced. The growing adoption can be highlighted in the management and accounting research, as this version emphasised the more systematic procedures informing the structured coding process. The model was therefore easily followed by early grounded theorists. The method includes three processes of coding: open, axial and selective. Open coding aims to initially categorise the data and it is followed by axial coding to connect the categories. The last coding process is addressed to generate the core categories known as the selective coding process. This process is followed with verification of theoretical sampling emerging from the coding data. However, Glaser criticised Strauss for being more interested in giving a detailed description instead of explanation, by using rules and procedures of Strauss' prescription of the coding paradigm.

The major difference between Glaserian and Straussian approaches lies in the technical way in which they produce the iterative analysis from the coding process. With the

former approach, theoretical coding is generated after the grounded theorist has advanced tentative categories; in the latter, core categories are developed after generating axial coding.  This technical difference arises from the fundamental approach of both versions. Glaser's interpretation of the necessary operational practices tends towards more openness, flexibility, and more parsimony in the elaboration of necessary analytic steps. Strauss' interpretation of the approach, on the other hand, tends towards increased prescription and formal elaboration of operational procedures.

Despite the variety of process, both the Glaserian and Straussian models of grounded theory use the same general process and similar language (Walker and Myrick, 2006). Both versions use words such as coding, the constant comparison, questions, theoretical sampling and memos in the process of generating theory.  In addition, the same basic process of both methods involves data gathering, coding, comparison, categorising and theoretical sampling, developing a core category and generating a theory. Therefore, grounded theory could be understood as a family of methods rather than one unified method (Denzin and Lincoln, 2005; Bryant and Charmaz, 2007). The choice of a researcher regarding the employed approach particularly relates to the researcher's preference concerning the central focus of the empirical study. (Parker and Roffey, 1997).

### 3.3.2   Learning from previous grounded theory accounting research

As a qualitative research method, grounded theory has been broadly adopted in the accounting study area (Smith, 2003).  Researchers have applied grounded theory as a method in studying accounting within non-profit organisations  (Abdul-Rahman and Goddard, 1998; Rahaman and Lawrence, 200; Parker, 2002; Goddard, 2005) Accounting research in private sector organisations has also been carried out (Efferin and Hopper, 2007; Tillmann and Goddard, 2008). These studies have various research backgrounds and intentions that employ different types of grounded theory and utilise various procedures. Discussion of the fundamental features of each grounded theory version, and its application in accounting research, is carried out in this section in order to justify and depict the grounded theory research method used in this study.

Grounded theory research in accounting is not well represented in published academic literature. The Straussian version of grounded theory is dominantly adopted by accounting researchers, as compared to the usage of the Glaserian approach. The dominant stream of Straussian grounded theory in accounting relates to the development strategies of researchers' central focus identification. Generally, the

Straussian supporters study a particular subject of research and focus on a specific context, although the researchers do not have any pre-determined theory. The evidence to support the Straussian model can be identified in several empirical studies. Parker (2001, 2002) focused on planning and budgeting in a non-profit Christian organisation in Australia. Goddard (2004, 2005) focused on practice of accounting, governance and accountability in UK local governments, whereas Goddard and Assad (2006) investigated the phenomenon of accounting in non-governmental organisations of Tanzania. Tillmann and Goddard (2008) explored how organisational actors perceive strategic management accounting in a multinational company. All of these Strausian supporters have followed a style departing from a general question focused on a research subject in the specific context, before entering the field. Then they refine iteratively the research questions toward generating the core phenomenon during the data collection and through the prescripted coding analysis.

Meanwhile, Glaserian followers in accounting research are quite different in terms of designing the method of study. They may depart without a pre-designed model before entering the field or with the initial research subjects that are more general than the versions of Straussian followers. They may develop the research subject in the field study during interaction with the primary actors of the field. For instance, the study of Wickramasinghe et al. (2004) has no pre-designed research enquiry but the researchers merely highlighted the entry point issues for the empirical research that was examining the effects of privatisation upon control and bureaucracy. Parker (2003) was initially interested to study the processes of strategic decision-making in a community welfare organisation; and then he focused more on the financial management strategy during the field research. These approaches of accounting researchers consistently support Glaser's model, which allows a research subject to emerge from the actors' primary concerns (Parker and Roffey, 1997).

In addition, the presentation of grounded theory research between Glaserian and Straussian accounting researchers displays different theoretical styles. The former commonly provides rich explanations of the relationship between the emerging concepts (Covaleski and Dirsmith, 1983; Parker, 2003; Wickramasinghe et al., 2004). The latter model often allows the presentation of a theoretical framework of the central phenomenon related to the causal conditions, strategies and outcomes of the strategies (Parker, 2001, 2002; Norris, 2002; Goddard, 2004; Goddard and Assad, 2006; Tillmann and Goddard, 2008). Despite dissimilarity, both versions of the accounting research allow utilisation with either single case or multi case studies. All of these discussions have provided important references either for grounded theorists in accounting or researchers who are interested in the grounded theory approach.

Departing from the characteristics of both versions discussed above, Gurd (2008) criticised grounded theory in accounting research. He argued that labelling grounded theory employed with accounting research should fit with the four fundamental canons as core procedures mostly mentioned in the original grounded theory monograph. He highlights that his samples could not demonstrate that they exclusively followed all canons. The article importantly emphasised that actual implementation of grounded theory in accounting research, conducted by grounded theorists in the area of accounting, seems unable to be consistent with the central canon(s) of grounded theory. This severe contention by Gurd (2008) has been directly refuted by Joannidès & Berland (2008) who claimed there is no single way of doing grounded theory. The two authors also claimed that grounded theory is conclusively defined as a methodology rather than a method. The debates surrounding grounded theory illustrate that the label of grounded theory, especially in accounting research, might vary among academic work even in the published articles. In line with this contention, the grounded theory approach of management research has evolved and been modified since the publication of the original monograph (Locke, 2001)

### 3.3.3  Justification of the employed method

Referring to the discussion in the previous section, this study adopted the Straussian approach. There are several reasons for doing so.

First,  the practice of budgeting such as implementation of performance-based budgeting is normatively viewed as one means of management control (Covaleski and Dirsmith, 1983). This study could enrich empirical understanding of previous academics who promote accounting as constitutive of reality. For instance, Ahrens (1996) proposed styles of accountability; Covaleski and Dirsmith (1988) saw the use of budgetary symbols in the political arena, and Broadbent and Laughlin (2013) recently promoted a book titled "*Accounting Control and Controlling Accounting*": all are illustrations of accounting practice  considered as constitutive of reality. With regard to these intentions,  Locke (2001, p.77) argued that the use of the coding paradigm prescribed by Strauss and his student Corbin, is helpful to provide a heuristic approach to understanding the relationship among categories. Through the coding paradigm, the Straussian method is taken into account as a powerful approach to help a researcher to tie together the emergent categories when generating a theoretical framework drawn from the data.

Second, the researcher has considered a particular context of the study that may differ from the context of previous research conducted in the same area of interest. Before

considering a particular context, the issues of budgeting and NPM reform have been explored by previous researchers revealing  the complex environment of practice (Covaleski and Dirsmith, 1983; Kelly and Wanna, 2000). Furthermore, grounded theory research into budgeting has mostly been conducted in the context of developed countries (Covaleski and Dirsmith, 1983; Parker, 2001, 2002a; Goddard, 2004, 2005). Therefore, researching budgeting as part of NPM reform, in the context of a developing country such as Indonesia, needs to employ a suitable research method in order to capture complex social phenomena. Grounded theory has provided  a capability to explore the complex social phenomena as the method emphasises the need for developing concepts drawn from data and their linkage (Strauss, 1987; Strauss and Corbin, 1990, 1998).

Third, as an interpretive accounting study, the researcher is eager to capture the actors' own perceptions and meanings that emerge from the field. Parker and Roffey (1997) argued that grounded theory provides a valuable method of offering the prospect of contributing important dimensions of knowledge of accounting research. However, the way to identify the central focus of the study may differ between grounded theory methods. Straussian approach is considered to provide a more structured and practical oriented method for generating grounded theory, as compared to the Glaserian model. The Straussian approach was noted as a helpful method for interpretivism, especially for researchers who choose in advance the focus of their observations, interviews and archival data (Parker and Roffey, 1997).

Apart from these justifications, research procedures were designed and employed to implement the Straussian method, as presented in the following section.

### 3.3.4  **Research procedures of the project.**

The procedures relevant to the study's grounded theory began with the research context prepared through the presentation of a literature review. Consistent with the approach of Strauss and Corbin (1990), the subject of the study was defined, and then appropriate research sites were identified and approached for access. Two initial targeted local governments were chosen due to researcher had access to the organisations. The access was obtained as the researcher had been previously appointed as a member of a consultancy team hired by both local governments. Initial research questions were developed after conducting pilot studies in two observed local governments. Via the pilot study, the researcher interviewed the most influential actors who could provide further access to the field: the Chief Financial Officers (CFO) of two local governments. These two officers were able to provide an early understanding of the broad research object and the targeted site visits.

The first field research was conducted in three local governments selected from the early targeted sites. For ethical purposes, the names of observed local governments are presented under the pseudonyms of RBK, RPM and CSM.  The City of SM (CSM) is the additional site considered during the first round of site visits to provide the context of an Indonesian city's local government. This was aimed to complement and enrich the context of Indonesian local government prepared in the early process of the study. The initial research inquiries, developed after conducting the pilot study, are presented in section 3.4.1. During the research process, the initial inquiries were refocused and modified during data collection and data analysis to reflect primary actors' concerns, instead of focusing on any particular pre-existing theory (Parker and Roffey,1997). The emergent research themes are allowed to influence iteratively the process of data collection and data analysis. Therefore, initial research questions, and emergent research themes are generated parallel with refocusing interview questions conducted during data collections. For instance, actors' perceptions about budget performance formulation cannot be separated with the practice of the budget revision process. Therefore, the study also investigated the practice of budget revision designed to explore more in the second round of site visits. The detailed procedures are illustrated in Figure 3. 3 follow.

Figure 3. 2 The procedures of the research

**Context and Background of Research**

**Prior Researches**

(As early Literature Review, it is not addressed to synthesize hypothesis)

**Pilot Study**
Early Understanding of Research Object and Targeted Field

**Initial Research Questions**

Refocused interview questions

**Emergent Research Themes**

Data Collection

In-depth Interview, Observation, Archival Document

**Early Coding**

Data Analysis
(Iterative, Constant comparison, , Creativity, Data triangulation, Theoretical saturation)

**Open Coding**

**Axial Coding**

**Selective Coding**

Theoretical Sampling

Substantive Grounded Theory

A Framework Toward Formal Grounded Theory

Figure 3.3 presents the procedures of research that emphasise the adoption of the Straussian approach. The prescribed coding analysis of Strauss and Corbin (1990) employed in this research comprises of three stages of coding: open, axial and selective.

Open coding initially categorises the data that arise from in-depth interviews, observation notes, and analysis of archival documents into early categories. Code notes were utilised as research memos intended to immediately record the researcher's initial theoretical sensitivity drafted on paper during data collection. The memos in the open coding process include the researcher's justification of early codes, summarising the interviews and simple diagrams of relationships of the early codes. The open coding process was partly conducted during the site visits while collecting

the data. During the process,  the emergent early categories were examined and compared by grouping early codes, which might have general or specific patterns, characteristics or attributes, into open categories ( Strauss and Corbin, 1990). The detailed open categories, as result of open coding, are presented in chapter 5.

Subsequently, the next coding process is axial coding. The process of axial coding was performed through identification of relationships and connections between open categories. The results of axial coding, labelled as core codes, are presented in chapter 6.

## 3.4 Researching practice of Indonesia local government budgeting as a case study in a developing country

### 3.4.1 Focused area of research

The study has designed four initial research questions before carrying out field research in order to guide the researcher in collecting interview data and others observation data. The research questions and the focused interviews for collecting data are presented below.

   I.   *What actual effect has resulted from the change of budgetary practice?*
   II.  *How has the change of budgetary practice been developed in the organisations?*

These two research queries are employed to explore the implementation result of the budgeting reform in three case studies. Referring to the pilot study, the local government budgeting reform is guided by national regulations that implement performance-based budgeting and cash budgeting with accrual for financial reporting (cash toward accrual system). The interviews will focus on:

   a.   The main results of budgeting reform
   b.   When the budgeting reform was conducted
   c.   How the process of reform has been conducted

   III.  *How is budgetary practice perceived by actors as the result of the change*

This research question is addressed to understand actual practice in the field, by developing further questions below.

a. What is the role or function of budget in their organisation as a local government institution? (Why they have to prepare a budget; the effects on public services and the importance of the budget for their organisation).

b. How is the budget prepared every year? (Sequential or non-sequential process, the roles of their organisation's members such as managers and staff, the role of the public, vertical organisation, and members of parliament in the budgetary process).

c. What are the differences between current and previous systems? (Focus on initial dimensions such as the process of budgeting, the impacted structure of organisations, budget documents, impact on the organisation in general).

d. How is performance budgeting, via a cash budget system, perceived by participants in a local governmentorganisation?

IV. *How is perceived budgetary practice used by actors in the field study?*

This research question is developed to explore the implications of participants' perceptions regarding the budgeting reform for the actual practice of budgeting in an observed local government.

a. How the budgetary process is managed by the participants in doing their job, based on the current system.

b. How the budgetary system could be linked to other organisational systems such as annual reporting, decision making and performance measurement.

V. *What theoretical explanations can be formulated to comprehend and clarify the budgeting practices in the everyday life of the observed organisation?*

VI. *How can the theoretical explanations of budgeting practices in the Indonesia Local Government explain the budgeting reform in the three observed organisations?*

The last two research questions are intended to generate theory from the data as the final product of this grounded theory study.

### 3.4.2 Research sites

Three organisations have been investigated to study practice of budgeting in the context of Indonesian local government. The local governments are the Regency of PM (RPM), Regency of BK (RBK), and City of SM (CSM). The respondents are executive actors and legislators directly involved in the budgetary process for the year 2013. The executive actors include members of the Executive Budgetary Task Force (EBTF), managers, and key personnel or staff of the chosen local governments. The selected

unit sites involve the department of education (DE), the department of health (DH), office of the chief financial officer (OCFO) and other organisational units which are part of EBTF. Meanwhile, the legislator respondents are members of local parliaments who are appointed as members of the Local Parliament Budgetary Board (LPBB). Detailed descriptions of the visited sites and respondents are presented in chapter 4.

The selection of local governments was based primarily on the accessibility of the research sites, as this researcher was eager to explore the day to day experiences of actors. The access to RPM and RBK arose from previous professional roles of the researcher in both organisations, while access to CSM was obtained as the city is the hometown of the researcher. Despite accessibility, the researcher considered a variety of cases with different environmental backgrounds, such as city versus regency, big budget versus small budget and Java region versus non-Java region.  These multiple cases enable comparisons to clarify whether an emergent finding of a case is similar or different in, or from, another case (Eisenhardt and Graebner, 2007).

Meanwhile, the choice of education and health sectors observed in the study relate to the consideration of national commitment stated in the national law. Central government and local governments have been mandated to allocate at least 20% for the education sector, as stated in the National Law 20/2003 regarding the National Education System. In addition, the health sector is the second basic services after education sector that should be prioritised to achieve the national commitment of Millennium Development Goals (MDGs) as well as directly supporting the improvement of the human development index regarding the local area. With reference to the National Law 32/2004 concerning local government; these two sectors are compulsory areas that consist of both infrastructure and human resources development agendas. Again, the visited unit sites also support the observation of multiple cases in order to provide a variety of empirical evidence. Eisenhardt and Graebner (2007, p.27) argue that multiple cases also create more robust theory because the propositions are more deeply grounded in varied empirical evidence. The following table 3.1 summarises the visited sites.

Table 3. 2 The summary of the visited sites and unit sites

| Visited site and unit site | Description | Notes of the visited site |
|---|---|---|
| RPM | Regency of PM | The visited site provides a case of regency which has relatively small amount of budget, and is located in the Java region. |
| RBK | Regency of BK | The visited site provides a case of regency which has a relatively large budget, and is located in a non-Java region. |
| CSM | City of SM | The visited site provides a case of city which has a medium sized budget, and is located in the Java region. |
| DE | Department of Education | The unit site that is responsible for preparing programmes, planned performance and budget of education sectors |
| DH | Department of Health | The unit site that is responsible for preparing programmes, planned performance and budget of health sectors |
| EBTF | Office of chief financial officer (OCFO ) | The unit site that is responsible for directing the implementation of financial management reform, including budgetary reform, and coordinating the proposed budget of executive actors for approval by EBTF. |
| | Revenue Office | The unit site that has a role to provide information about revenue budget during the budgetary process. Their predictions of targeted revenue are based on their policy and capacity of revenue generating departments to implement the policy. |
| | Planning Agency | The unit site that is responsible for planning, monitoring and evaluating the strategic plan of local governments. The targeted performances of local government executed by departments or other unit site are the product of this agency. |
| LPBB | Local Parliament Budgetary Board | Members of local parliament who are appointed as LPBB and directly involved in the process of budgeting. They scrutinise and give or withhold approval for the proposed budget prepared by the primary research sites through EBTF |

### 3.4.3  Development of theoretical sampling

The sampling method in interpretive research, particularly in grounded theory, is quite different with positivistic research, where the latter needs statistical appropriateness as a strict requirement. Sampling is not merely committed before collecting data, as positivists intend to set up targeted numbers of empirical data designed to be representative of a general population. However, theoretical sampling does differ from the  traditional forms of sampling (Strauss and Corbin, 1998). It is conducted not only prior to data collection but also during the process of study. The analysis is directed by the evolving theory (Strauss and Corbin, 1998, p.203). Referring to figure 3.3, this study developed theoretical sampling in several phases.

In its early phase, theoretical sampling was related to the emergent research themes directing the researcher's interview questions in the field. Initially, the interview questions were designed based on a pilot study and the researcher's selection of research problems. In this stage, the sampling decisions should be made before collecting data informed by a researcher's particular disciplinary sensibilities and by his or her intent to study a particular problem area (Locke, 2001, p.801). In the second phase, theoretical sampling is reflected in the coding process conducted iteratively with data collection. The researcher concentrates on generating as many categories as possible, then developing, densifying, and saturating those categories (Strauss and Corbin, 1998, p.203).  To support this intention, multiple comparison groups were the main source of data analysis. The final phase of theoretical sampling is the validation process of the substantive theory. Efforts to relate the emergent theory with general theory and previous academic works are aimed to generate a framework toward formal theory. A clear relationship between the emergent theory and the general theory means that validity is achieved form the emergent theory.

### 3.4.4  Data collection and analysis

The data are collected through in-depth interviews in all three case studies, and supplemented by pulling together documents related to the budgeting process such as budget documents, reports, government laws and worksheets; and complemented by observation during the budgetary process. The three cases studies were chosen with consideration of various environmental backgrounds, such as different local culture, fiscal capacity, political environments, geographical and historical conditions. Previous researchers using this methodology recommend that the use of more than one case enables comparisons to be made and this allows a more rigorous theory to be developed (Abdul-Rahman and Goddard, 1998; Goddard, 2004, 2005). The detailed

data collection methods include in-depth interviews, observation and documentary evidence presented as follow.

### 3.4.4.1 **Pilot study**

The researcher conducted a pilot study before officially visiting the research sites. The planned timetable was based on a pilot study conducted on March 2012, in the local governments of RPM and RBK. During the pilot study, the researcher conducted formal meetings and interviews with the both CFOs.  The formal meeting was intended mainly to obtain consent to access the research sites, while the interview was designed to obtain a brief understanding about the existing situation of the targeted sites. Early targeted participants were discussed with the CFO in order to prepare effectively the in-depth interview sessions that allowed further investigation with other relevant participants related to the emergent research themes. For this objective, the CFO also provided an opportunity for researcher to join a scheduled meeting during preparation of the local government budget.

Access for conducting the pilot study was obtained initially from the personal relationship between researcher and some of the actors in RPM and RBK. The access was helped by the researcher's previous professional experience in both local governments as a consultant member of the CFO office, during the implementation of financial management reforms from 2008 to 2010. The pilot study resulted not only in consent to carry out the in-depth study in RPM and RBK but also facilitated a list of initial research questions. Despite the initial research inquiries, the pilot study also guided the data collection, especially with regard to the importance of CSM as an additional research site. This was considered as a strategy for comparison analysis with the context of a city. During the pilot study, CSM was also formally contacted through their CFO; the consent for an in-depth study was obtained during the first round of site visits. The researcher considered the CSM as his hometown, where many friends work as local government officers. Therefore, the initial access to the CFO was obtained by the help of a neighbour of the researcher. However, until the end of pilot study, no consent letter was received by researcher and no meeting was conducted in the CSM.

### 3.4.4.2 **Interviews**

The researcher conducted interviews through both semi-structured and unstructured questions. During an interview, the researcher was initially guided by the semi-structured list of themes or issues, as described previously in the section 3.4.1, which were then explored in-depth via unstructured questions. All of the interviews were tape recorded unless the respondents felt uncomfortable; then notes were taken

accordingly. The researcher employed research note taking, not only to back up the tape recordings but also to substantiate any unrecorded interview with written information. Verbal and non-verbal data were recorded mostly using a tape recorder and/or digital camera. The researcher completed face to face interviews from anywhere between approximately within 30 to 90 minutes in  natural or informal manner. This allowed respondents to reveal freely their everyday experiences.

The semi-structured interview comprised three sections, designed by the researcher, in order to frame the interview to the initial research questions, as described previously in section 3.4.1. The first part of the interview was to obtain brief information concerning personal identification. The second part was focused on the reform process and the third was focused on the actors' perceptions of the existing budgetary practice. The research notes drafted during interviews were also rewritten in a proper and standardised format for analysis purpose. Some of the tape recorded interviews were transcribed. In order to comply with ethical requirements, the voice recordings were stored in a protected-password computer together with the transcribed data.

In total, the study interviews involved a total of 62 respondents from the three sites: RPM - 22, RBK - 21 and CSM - 19.  A total of 42 respondents were interviewed during the first round of data collection, while the remaining respondents were interviewed during the second round. Some of respondents were interviewed again during the second visit in order to obtain in-depth explanations regarding the emerging themes obtained from the first interviews. For the same reason, several respondents were visited in several interview sessions, either during the first or the second round of site visits. There was a total of 78 interview sessions obtained from 62 respondents, including the sessions during the pilot study.

During the first round of data collection, the researcher mostly interviewed actors from the sites of RPM and RBK, as these sites had been previously visited in the pilot study. The additional site of CSM was also visited during the first round of data collection as the researcher was eager to compare the context of two regencies with the context of a city. Several respondents of CSM, who were approached and interviewed during the time of the site visit were mostly organisational actors from the office of the CFO. This early contact with the site of CSM initiated consent to interview other respondents from CSM; these interviews were conducted during the second round of site visits. This first round of data collection was accomplished from the middle of October, 2012 to the end of January, 2013; the second round of data collection was performed from October to December, 2013.

Face to face interviews were performed principally to expore the perception of actors regading reform implementation of budgeting practice. During discussions, researchers employed "*Bahasa Indonesia*" as the language used in the interview. The usage of the chosen language is intended to ensure that the meaning of actions, investigated from actors' perception and other sources, could be interpreted clearly by researcher. "*Bahasa Indonesia*" is the national language of Indonesia which shall be studied by all participants in their formal education. This chosen language allows the researcher to explore various meaning of actions obtained from participants' expression as the researcher also a native Indonesian. With this strategy, local language of participants could not significantly limit the ability of researcher to interpret the data as a language barrier may arise in the process of interviews. During interviews, comparisson of expression from various participants could be developed with a clearer understanding using the same language.

Interviews were conducted by researcher who play the role as a non-participatory observer. A set of procedural pre-interview steps was strictly employed by the researcher for ethical consent. Principally, researcher only meet participants who have been agreed to be interviewed in the form of either formal or informal discussions. Researcher avoids situations when a participant experiences an uncomfortable situation during interview process although the participant has provided previously a meeting appointment for discussion. The uncomfortable situations are conditions experienced by participants that might relatively influence them to feel free in response to the interview questions. This situations include unexpected busy time, family problems, and  health issues of participants. In such situations, researcher prefer to reschedule the interview session in order to ensure that participant could feel free and comfortable to express their day to day experience. Sometimes, researcher has to stop for a while the tape recording equipment when the participants feel better to express their feeling without  the documented voice. This interviews process are again to ensure that the intention of in-depth interview investigating day to day experience of actors can be consistently applied by researcher.           During the first and second round of site visits, the researcher focused on organisational actors who play important roles in the budgetary process, involving the EBTF, departments, and LPBB. The EBTF's participants include CFOs and their key personnel, heads of planning agencies and their key personnel as well as the heads of revenue agencies and their key personnel. Participants from departments consisted of heads of departments, managers and key personnel within the departments of education and departments of health. In addition, the interviewed local parliament's actors comprised of the chairmen and members of LPBB. The summary of participants presented in table 3.2.

Table 3. 3 List of participants

| Role of the site | Site Location and Participants | | RPM | RBK | CSM | Total Participant |
|---|---|---|---|---|---|---|
| EBFT | **Site no 1: Office of CFO** | | | | | |
| | 1 | CFO | 1 | 1 | 1 | 3 |
| | 2 | Head of budget officer | 1 | 1 | 1 | 3 |
| | 3 | Key Personnel of OCFO | 3 | 3 | 1 | 7 |
| | **Site no 2: Revenue office** | | | | | |
| | | Head/Director/Manager | 1 | 1 | 1 | 3 |
| | | Key Personnel | 1 | 1 | 1 | 3 |
| | **Site no 3: Planning and development agency** | | | | | |
| | | Head/Director/Manager | 1 | 1 | 1 | 3 |
| | | Key Personnel | 2 | 1 | 2 | 5 |
| DEPARTMENT | **Site no 4 : Department of education** | | | | | |
| | 1 | Head/Director/Manager | 1 | 1 | 1 | 3 |
| | 2 | Finance manager/accountant | 1 | 1 | 1 | 3 |
| | 3 | Key personnel (Finance staff, treasurer/vice of treasurer) | 2 | 3 | 2 | 7 |
| | **Site no 5 : Department of health** | | | | | |
| | 1 | Head/Director/Manager | 1 | 1 | 1 | 3 |
| | 2 | Finance manager/accountant | 1 | 1 | 1 | 3 |
| | 3 | Key personnel (Finance staff, treasurer/vice of treasurer) | 2 | 2 | 2 | 6 |
| LPBB | **Site no 6 : Local parliament** | | | | | |
| | Politician (chairman/vice/secretary) | | 1 | 1 | 1 | 3 |
| | Politician (member of LPBB) | | 3 | 2 | 2 | 7 |
| Total | | | 22 | 21 | 19 | 62 |

3.4.4.3 **Observation**

Another technique of data collection, complementing the interviews, was observation. Stake (2010, p.90) claimed that observation is "*the way of the researcher to gather information that can be seen, heard or felt directly by the researcher*". This researcher select observation as a valuable method for gathering data, rather than alternatives such as a survey with regard to the intention to obtain the meaning of actions. Therefore, this study employs observation as a tool for gathering data, combined with interviews and relevant documents of budgeting in order to interpret rigorously the meaning of actions observed during the budgetary process.

Observation in this study used a non-participatory observer within the period of the budgeting process. This means that the researcher is physically present in the observed activities but does not become involved or participate in the observed activities; this is the 'fly on the wall' role. The observations allows the researcher gather information by looking behaviours of people being observed and by listening budget discussions during either formal or informal budgetary meeting. Principally, the audience of the observed meeting know the existence of the researcher during the meeting but the researcher would not influence or involve in the discussion. The meetings include formal discussion such as budget policy preparation, budget policy operationalisation, and the final agreement of budgetary process. The formal meeting involve meeting of local government officers and meeting between politicians and local government officers. Unlike the informal meeting, the formal meetings are officially scheduled based on budgetary process required by national regulations. Meanwhile, the informal meetings are mostly arranged personally either by an executive members or a member of local parliament who has met researcher in the formal budgetary meeting. The informal meetings include pre-meeting and pra-meeting of formal meetings which discuss the process and result of budgetary decision making respectively.

Especially during the first time of formal meeting, researcher was firstly introduced by a local government officer who has been appointed officially as the research guide of the researcher to the audience of the meeting. Then, researcher employs this opportunity of the introductory moment to explain his research activity, the broad description of research's objective and the expected contribution in the field research to the meeting audience. In this occasion, researcher utilise debrifing form as a brochure to explain briefly about the research which has been prepared before visiting the research field. The explanations also include the ethical issues particularly the use of alias for the respondens' name, pseudonym of the observed local governments and institutional agreement of data restriction for third party. Unlike the formal meeting,

researcher explained all about his research in the informal meeting with more natural and informal situation as all of the audience were familiar and know the researcher previousely.

However, there were some situations when researcher could not access or miss the meeting. These situations include meeting with mayor or regent that were imposibble to be accesed, and several meetings which were conducted before and after the researcher visited the field. In such conditions, researcher explore what happen in the meeting through interviewing participants who present in the meetings. Observations were also conducted in the second round data collection. These observations were focused to the meetings that discuss the implementation of budget. Moreover, the observations complement the previous observation in the first round data collection.

Similar to the interviews, research notes were also employed in observation, such as in budget meetings. Principally, observation intends to obtain data / information relating to budgeting activities through observing the budgetary process and its implementation. Additionally, these observations were committed for documenting the researcher's previous experience since the researcher had previously provided professional assistance to the RPM and RBK. This previous professional experience was valuable for grounded theory; facilitating the researcher to have a capacity for "a creative imagination" to develop "theoretical sensitivity" when doing the studies (Parker & Roffey, 1997, p. 225).

Principally, observations were focused on meetings and discussions relevant to the budgeting process. There are three types of meeting in this process, namely: executive meeting, legislative meeting and meeting between executive and the legislative body. The observations were performed for all these meetings, as a complement to the interviews.  Moreover, some meetings were informal;  discussions among field participant in any possible place and time. The researcher has also taken into account the informal discussion session as *bona fide* research data.

### 3.4.4.4  Documents

The documents collected in this study mainly consist of various documents relevant to the budgeting process in the observed local governments. The documents are all budget related: strategic plan documents, planning and budgeting manual procedures, budget policy documents, minutes of relevant meetings, relevant local regulations and policies.  The researcher also collected other relevant documents supporting the

primary documents, such as national rules and regulations, and local government guidance related to the budgetary process.

Some of the documents are public, such as those planning and budgeting manual procedures  created by the Ministry of Home Affairs (MOHA) of the Republic of Indonesia. However, budget documents for the period 2012/2013 were collected from the three local governments after their budgets were enacted. Documents such as those related to strategic planning, relevant local regulations and policies were ordered through contact persons before visiting the research sites. The rest were collected during the site visit. Some of the documents were provided in soft copies either downloaded from the official website or given directly by the local government's officers. The list of collected documents is presented in appendix II.

### 3.4.4.5  **Data analysis**

As discussed earlier in section 3.3.4, Straussian grounded theory was selected as the employed method for data analysis. The analysis was routed in a systematic way through open, axial and selective coding. As a grounded theory study, the analysis was accomplished concurrently and iteratively with the process of data collection. This means that data analysis began during data collection in the field research. Some data collection was determined by emergent themes that resulted from data analysis. This section explains three steps of the open coding process conducted by this researcher and then offers a discussion of the process of axial and selective coding.

In the beginning of the open coding, the researcher mostly identified early open categories directly from the observational notes and interview notes, while listening to the tape recorded interviews or reading the transcribed interviews and archival documents. The process of early open coding was mostly intended for labelling or naming activities, actions, and events. This was done statement by statement, sentence by sentence, and paragraph by paragraph to represent actions, activities or events. During this early open coding period, the researcher avoids labelling or naming the early categories using concepts of the existing literatures. All early categories were generated by the researcher, based purely on his interpretations from data. The interpretation of the researcher mostly focuses on similar meaning with different terminology or anonym, similar characteristics, and the nature of activities, actions or events.

Next, the second step of open coding was the grouping of early categories resulting from the preliminary open categories. In this stage, similarities between the early categories were analysed by the researcher and then these were gathered into new grouping categories. The similarities were mostly identified by looking at why the

activities occur. For instance, groups of  actions identified in the early open categories showed the dominance of fund allocation, such as block and specific grants from central government, and the practice of budget fiscal capacity prediction that is strictly informed by the official publication of central government policy. By pointing to a reason, the early open categories were gathered into a new preliminary open category labelled as dependency on central government's funds. Again, labelling and naming of the second step of open coding were also purely generated from data, without any influence from the existing literatures.

Subsequently, the last open coding process was addressed to formulate the final open categories. The preliminary open categories, which had resulted from the previous step of open coding, were regrouped into final open categories. This process examined the pool of provisional concepts by identifying more comprehensive and more abstract labels. Final open coding  was performed mostly to provide headings for classes of objects that share similar characteristics or the researcher's insights that seemed to explain what is going on (Strauss and Corbin, 1998, p.113). The researcher was also aware of alternative categories that are possible to be developed further, to explain patterns and variations through their properties and dimensions.

For example, the selected category – 'reflecting central government's power' - was generated from the labels which involve awareness of national policy, dependency on central government's funds, and the efforts to conform to national regulations.  The key word – *reflecting* - was generated from the words: awareness, dependency and conformance effort that can be likened to the property of reflecting. In terms of the dimension, the instanced property that was generated from group of interpreted actions could be explained by placing it along a continuum or range. In this example awareness, conformance effort and dependency are located in different positions of a continuum, such as weak, medium and strong respectively, in order to explain patterns of a category: *reflecting central government's power*. The approaches of open coding employed in this study are summarised in figure 3.4 below.

Figure 3. 3 Three step process of open coding

| Description | Early open coding | Grouping of early coding | Open coding |
|---|---|---|---|
| **Output** | Early open categories | Preliminary open categories | Final open categories |
| **Process** | • Labelling or naming activities, actions, and events (*This was done statement by statement, sentence by sentence, paragraph by paragraph to represent actions, activities or events*)<br>• Looking for similarity | • Questioning why the activities, actions, and events occur<br>• Looking for similarity of reasons<br>• Grouping the early open categories | • Headings for classes of objects that share similar characteristics or insight of researcher that seems to explain what is going on<br>• Looking for similarity and variation<br>• If possible, explaining the properties and dimensions of the open categories |
| **Input** | • The observational notes and interview notes while listening to the tape recorded interview or reading the transcribed interview and archival documents. | • Early open coding<br>• Observational notes, interview notes, tape recorded interview, the transcribed interview and archival documents | • Preliminary open categories<br>• Observational notes, interview notes, tape recorded interview, the transcribed interview and archival documents |

After completing the process of open coding, the analysis was continued directly with both processes of axial and selective coding. All of this coding was performed interactively instead of sequentially. In this open coding, the researcher principally focused on generating open categories and developing their subcategories. The details of the open coding process are presented in chapter 5.

In axial coding, the researcher is concerned with developing core codes as headings that link and relate categories through investigating the connections among subcategories. During the process of axial coding the researcher look for answers to questions such as why, where, when, how, and with what results. The output of axial coding was core codes representing many phenomena in budgetary practice, and these phenomena were also termed as 'the emergent categories'. The discussions of the axial coding process are presented in chapter 6.

Next, integrating and refining categories were conducted through the process of selective coding. During the process of selective coding, the researcher is mainly concerned with deciding on a central category selected from the emergent categories. A category was chosen as a central phenomenon with several justifications. The

researcher mainly takes into account the ability of the selected category to pull together the other categories to form a larger theoretical scheme. Moreover, the selected category appears frequently in the data identified within all cases. To support the objective of theory building, the central phenomenon should be presented as a set of interrelated concepts instead of just listing themes. In uncovering the relationship, therefore, the researcher was helped by the basic components of the Straussian paradigm identifying conditions, strategies and consequences with regard to the existence of a central phenomenon. Presentation of this coding analysis is discussed in chapter 7.

Although the coding seems a sequential process directed from open to selective coding, the coding process was done iteratively and conducted in several rounds. To support this analysis, the second round of data collection was performed to investigate emergent concepts resulting from the first round of coding analysis. This researcher finished data coding analysis when both saturation of concepts and coded data were achieved. This means that all of the collected data have been coded, there were no new emergent concepts, and all of the emergent concepts have been incorporated to generate a theory.

In addition, the researcher used Nvivo software to make the presentation of coding more simple, in order to be documented systematically and recoded again if needed. However, the researcher did not employ the software since the early process of data analysis instead of using the software in the advance stages of coding with regard to several reasons. First, the coding analysis is more iterative manner rather than sequential process, then the usage of Nvivo software especially in the open coding analysis could distract technically the early process of data interpretation. Second, the investigation of relationship between open categories are like a playing with the data. The structural feature of data documentation in Nvivo software might limit the speed of analysis, The last, the period of NVivo registration is one year, hence the researcher should renew the registration of software and resetting the data again if the data collection and analysis are performed more than a year. For that reasons, Nvivo software was utilised when the researcher finished the advance stage of manual coding analysis. Principally, researcher utilise the Nvivo software for presenting or documenting purpose of whole coding stages rather than for data coding process since the beginning of analysis. Despite the software, the researcher also conducted a more conventional analysis by using the hand written 'theoretical' memos and code notes to provide a backup data analysis for the software.

### 3.4.4.6 **Ethical issues**

The data collection were began when the ethical approval has been obtained by researcher from the ethics committee of Southampton University. The ethics approval means that researcher could start to visit the research fields for data collection as a proper ethical practice is required for all primary data collected on human participants. The application was made by online through the link www.ergo.soton.ac.uk. The committee's approval was made based on a set of planned schedule and procedures of the research prepared by researcher with some correction made during the process of ethical review. The approved procedures of research include the official forms such as the consent form of participants, debrifing form, and participants information sheet. All of the forms have been prepared in both "*Bahasa Indonesia*" and English.

During the field research, every new participants must receive the official consent form and participants information sheet given by researcher. Researcher would let the respondent to read both forms and wait a response whether agree or disagree to participate. Despite oral permission, most of respondents signed the consent forms if they are agree to participate in the interview session. Very few targeted respondents rejected to participate the interview as the research process was guided officially by the CFO. In the case of rejection from the targeted participant, researcher usually discusses with the CFO whether there is someone as alternative respondent who could provide explanation about particular themes of budgetary practice.

Researcher always explain briefly about the research to the participant before conducting a face to face interview. The explanations are help by the debrifing form as a brochure prepared for the participants. During interview, researcher ensures all of the agreement, explained in the participants information sheet given before participant decide to participate, could be applied clearly during the process of interview. For instance, researcher could stop the tape recorded equipment during the interview when the respondent ask to do so. Researcher always concern with the respondent's response whether the respondent feel comfortable or not to answer the interview questions. Researcher may finish the interview earlier and then prefer to reschedule the interview when the respondent could not have situation to discuss the budgetary practice in a natural way and a relax situation. In-depth interview rely importantly on day to day experiences of the actors in order to get the meanings of actions. Without natural expression of respondents, researcher believe that the data could not represent the real situation of day to day respondents' experience.

Finally, the ethical practice in this research include the way to manage the research data. Researcher keep the voice data in the encrypted file within the password protected computer. Researcher always ask participant's contact detail such as email,

phone or skype account to get further explanation if the researcher wants to have additional information outside the visiting time. At the end of interview, researcher must stop to record voice the participants, finish with a closing word, give the code of personal data by adding complementary information such as date and time of interview session. Moreover, researcher always produce a research note of each interview as a written documentation to record participant's expression and remembering the process of interview that will be useful when retrieving the data in the coding analysis.

## 3.5  Summary

This chapter presents a discussion regarding the methodology and method used for this study. Methodology is discussed generally by comparing and contrasting various paradigm in accounting research. Moreover, justification of being interpretive as the chosen research paradigm of the study is developed refer to the objective of the study. Understanding budgetary practice in the context of Indonesian local governments should be investigated from perception of actors who directly involve in the budgetary process. This kind of research is considerably impossible to be conducted from the outside organisations. Therefore, interpretive methodology through investigating day to day practices is taken into account as suitable approach rather than proposing functionalist pradigmn which do not study the research object from the inside organisations. In addition, critical theory perspective was not considered as an appropriate methodology due to the study's objective that eager to understand individual motivations, intentions, and reason for actions rather than provide a critical focus on explanation. Subsequently, the discussions also explained grounded theory as the employed method for the study. The grounded theory method was chosen to accompany the interpretive methodology with regard to the study's intention for theory generation from phenomena being investigated. Details of the research procedures employed in this study are presented through a diagram reflecting whole stages of the research. Principally, the procedures of the research are mostly iterative processes instead of sequential procedures. To support the chosen research method, the discussions are followed with presentations of the focused area of the research, research sites, development of theoretical sampling, data collection and data analysis. The research sites consist of two regencies (RBK and RPM) and one city (CSM) as the observed local governments.  The chosen research sites are based on accessibility and case variety consideration. Theoretical sampling is developed not only prior to data collection but also during the process of study. In grounded theory research, theoretical sampling also means that analysis is directed by the evolving theory.

Therefore, data collection and analysis were performed principally in line with theoretical sampling development. Data collection was prepared through pilot study conducted before the researcher interviewed the participants. Data analysis was partly conducted during data collection and mainly based on data interviews, observations and archival documents. A set of coding analysis, adopted from Straussian grounded theory model, was designed to support theory generation from the raw data. Moreover, ethical issues must be prepared and managed by researcher before doing the fieldwork. This includes the committee's approval which consist of official procedures of the research and supporting forms for doing interviews and observations. As part of the data collection result, the research sites were compared and contrasted in term of their environmental background. The following chapter describes the research sites in detail.

# Chapter 4

# Description of Research Sites

## 4.1   Introduction

This chapter presents profiles of three observed local governments in this study: the City of SM, the Regency of BK, and the Regency of PM. Observation was conducted to investigate the practice of Indonesia local government budgeting, during the implementation of the new performance-based budgeting system. Therefore, the two primary organisational units observed in the study consist of the departments of education and departments of health. Despite executive actors, legislators in the local parliaments are also interviewed in the observed local governments. This chapter begins with a short description of Indonesia, and then it is followed with an overview of Indonesian local government. Next, this chapter provides an explanation of the observed local governments by presenting comparisons of financial, social and political situations among the observed local governments. Finally, this chapter provides an overview of both observed departments.

## 4.2   Short description of Indonesia

Indonesia is the largest archipelago nation in the world, populated by 237 million inhabitants who live on 17,000 islands.  Most of inhabitants live on six major islands: Sumatra, Java, Kalimantan, Sulawesi and Indonesia part of New Guinea, known as Papua or Irian Jaya. Java has the largest population and Java is an island where the capital city of Indonesia, Jakarta, is located.  The distance from west to east of Indonesia is approximately 3200 miles, slightly less than the distance between London and New York. Besides these geographical and demographical conditions, cultural diversity exists among the peoples of Indonesia, reflecting over 300 ethnic groups which mostly have their own distinct dialects, and different cultural traditions. Despite the population being dominated by Muslims,  the country was not declared as a Muslim country, thereby making Indonesia a secular state which has, as its official motto, "Bhinneka Tunggal Ika" translated as "Unity in Diversity".

Until this day, Indonesia has historically experienced three periods of political regimes since post-independence. Sukarno, the first president, led the country to secure independence as the first political regime. During that time, disunity was occurring as the result of regional differences in customs, morals, tradition, religion, the impact of Christianity and Marxism and other diversities. In this period, known as the old order

or "*orde lama*", Sukarno managed the country with a particular political approach to implement unity in diversity in real political life. He harmonised the most dominant national factions in the state and made national consensus by blending nationalism, religion, and communism into a co-operative spirit of government. The second period of political regime was labelled as the new order or "*orde baru*". The term was coined by the second Indonesian president – Suharto - who ruled the country for the longest period, from 1965 to 1998. Before the regime was forced to resign in 1998, the 'new order' regime managed to achieve and maintain political stability, economic development, and relative equality. The success of this regime to develop the country during the three decades was accompanied by a strong political role for the military; and was therefore considered as an authoritarian and powerful regime. Suharto's resignation was the beginning of reformation era followed by a more open and liberal political-social environment. The resignation was the end of the new order regime, resulting from a political crisis that pushed for a stronger democracy and civilian rule, combined with demands for greater regional autonomy. Nowadays, Indonesia has become one of the most democratic countries in the world, embracing a multi-party political system during general elections, implementing massive decentralisation and ensuring freedom of the press.

In summary, this overview indicates that Indonesia has a specific environmental setting. Despite a massive population living in a group of islands embracing significant cultural diversity, Indonesia has become one of the world's most democratic countries; open and liberal with regards to the socio-political environment. These distinct political and social contexts are taken into account as important research justification for investigating government budgeting practice during reform implementation. The next section overviews the reform journey of Indonesian local governments' budgeting, with particular reference to the development of national laws and regulations.

## 4.3   The journey of Indonesia local government budgeting reform

Indonesia's local governments' budgeting has been reformed for more than a decade; the process beginning in 1999. Essentially, the reform could not be separated with political reform during the fall of the Suharto regime. The change of national leader and political reform could be directly related to the existence of financial crisis. During the time of the crisis, the public blamed the regime for practicing political economy of conglomeration, when only corporations which were closely tied up with the regime could get the opportunity to benefit from, and therefore dominate, the national economy. As a result of massive public criticism, people power pushed out the regime in 1998, and then the new government fundamentally changed the political system.

The spirit of democratisation and a regional autonomy agenda were injected into the new political system; with NPM reform as a tool for the improvement of public management. Therefore, the reform of local government, guided by national laws and regulations, has shown an obvious agenda with a main expectation to create better management and public services through government managerial change: from heavy centralised decision making to the development of significantly greater local autonomy. Local government budgeting reform is performed as part of the government's financial management reform. The journey of the local government budgetary reform is summarised by presenting the map of national laws and regulations regarding the budgetary reform as illustrated in appendix 1.

Referring to appendix 1, the local government budgetary reform has been conducted in two reform periods. The first reform was the period between 2002 to 2005, when local governments' budgeting and accounting were guided by MoHA regulation No. 29/2002. The second reform was started in 2006 when MoHA regulation No. 13/2006 was published to replace the previous guidance. Fundamentally, the second reform was aimed to provide more comprehensive guidance for local governments, as compared to the first reform. For example, the second reform provided the new package of national laws and regulations to redesign autonomy and state finance. Compared to the first reform, supporting regulations to guide financial management reforms, such as accounting standards, national audit and strategic planning guidance have been promulgated to improve the existing reform. Despite these differences, both reforms committed to implementing performance-based budgeting as a new budgetary system. In addition, the improvement of the reform guidance still continues until nowadays. MoHA regulations are the instruments to guide local government budgetary reforms.

## 4.4   Characteristics of Indonesia local government budgeting

Local government as government organisation comprises of two groups of actors: executives and legislators. Unlike central government, local governments do not have authority for judicial function. Under current legislation, there are three levels of Indonesian local government: province, regency/city and village/country of regency. In supporting descriptions of the observed local governments involved in this research, this section is focused on local government which operates in the same regency / city level. The section provides an overview of Indonesian local government characteristics by discussing the administrative structure of local government, comprised of executives and legislators, and the distinguishing environmental settings of regency and city.

The work of the administrative structure of local government could not be separated with its political aspect, as that work depends on the political setting informed by executives and legislators. In Indonesian local government, members of local parliament and the leaders of the executive are elected directly by members of the local communities.  A member of a local parliament, who is elected as a representative of the people, must be a member of a political party which, in turn, proposed their candidacy. Meanwhile, unlike parliamentary members, a leader of the executive could come from independent candidates, but mostly they are nominated by a political party or combination of political parties.  As a result, a political party which is dominantly voted for by the public in local parliament might not become a governing party.  The role of the members of a local parliament is mostly to control the executive but excludes them from deciding the executive leader's election. It is almost impossible for a party to become a ruling party if they do not make a coalition with leader of the executive and other parties in a local parliament. Naturally, the elected leader of the executive usually persuades the parties after or more likely before an election to create a partnership between parties in order to obtain significant support from the local parliament. These political aspects are part of the highlighted contexts of this study.

### 4.4.1   Executive members of the local government

Different from the leader of the executive, members of the executive consist of public officers who are appointed as permanent employees and officially have no connection with any political parties. In the budgetary process, there are two relevant administrative organs of the executives recognised in national regulations: the SKPD and TAPD. The former are agencies, departments or other organisational units of local governments; while the latter is the executive budget task force which is responsible, as official coordinator, for preparing and proposing the budget to the legislature. The following discussion provides explanations of both executive organs.

The SKPD is "*Satuan Kerja Perangkat Daerah*" translated as '*those organisational units which execute particular function of local government'*. SKPD is headed by an officer who manages the allocated budget for the organisational units. The managers are responsible for preparing and executing the budget, for managing debts and claims, and providing financial reports for activities under their function. Structures of local government basically imitate the state finance management model employed by central government. Reffering to the national law no. 17/2003 and no 1/3003,  the manager of SKPD can be taken into account as the one who is acting like the Chief Operational Officer for particular functions of local government. In this study, education and health

departments have been selected as the to-be-visited sites in each observed organisation.

Meanwhile, TAPD, stands for "*Tim Anggaran Pemerintah Daerah*", which is a permanent task-force of the executive mandated by national regulations. In this study, TAPD was translated into EBTF, stand for executive budget task-force. EBTF comprise of chairman, secretary and members. The chairman of EBTF is the general secretary of the local government, who is the highest ranking employee in the organisation. The secretary of EBTF comprises of two officers: head of planning agency and the Chief Financial Officer (CFO). Officially, members of EBTF include not only personnel of planning agencies and CFOs but also selected managers of SKPD which has the most significant budget allocation.  Normally all of the proposed budget of SKPD should be evaluated by EBTF before submitting it to the local parliament. This was conducted technically by personnel of the general secretary, planning agency and CFO's office. Therefore, this study determined three visited sites to investigate the activities of EBTF that were involved in budgeting practice: the general secretary's office, the planning agency and the CFO's office.

Figure 4.1 summarises the executive of an Indonesian local government; identifying who are the main actors in proposing budget policies and drafting the budget for parliament. The intention of the figure is to show the visited sites in the observed local governments, which are highlighted in grey.

Figure 4. 1 Structure of executive involved in the budgeting
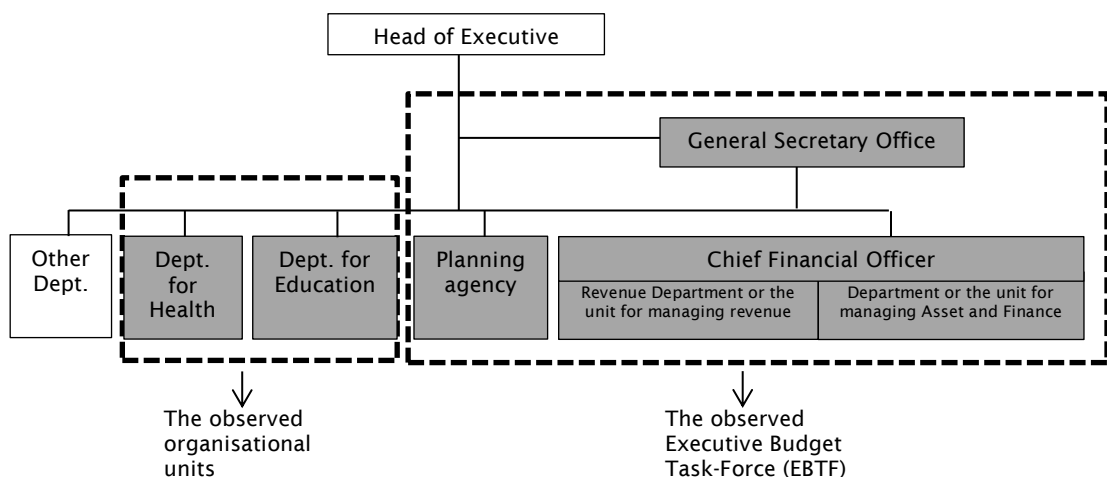


### 4.4.2   Legislators of local government

The legislators consist of member of local parliaments. In budgeting, legislators only have the right to reject or to agree with the proposed budget. All budget proposals are independently prepared by executives to obtain local parliamentary agreement. However, members of the local parliament could officially influence the planned

programmes of executives through the budget policy formulation. Budget policies must be officially agreed by both executive and legislature before any policy becomes guidance for members of executives in proposing a budget to the local parliament. When the executive accomplishes the budget, local MPs start to scrutinise the proposed budget until they could make agreement to enact the budget as a local regulation. Local parliament carries out this function through their administrative organ named as "Badan Anggaran DPRD" translated as *local parliamentary budget board*. This board consists of the chair and vice chairman of local parliament, and representatives of local parliamentary committees. The local parliamentary budget board is one of visited sites in each of the three local governments. Further, this parliamentary budget board is shortened to 'LPBB'.

According to central government regulation 16/2010, regarding code of conduct of local parliaments, LPBB is responsible for six duties as follows. First, to give suggestions and recommendations regarding principles of parliamentary thought provided for the executive leader in formulating the budget, a maximum 5 months before the enactment date. Second, to perform consultation which can be represented by relevant committees to get input for discussion in the formulation process of budget policy (named as KUA) and budget priority and temporary ceiling (known as PPAS). Third, to provide suggestions and recommendations for the leader of the executive in preparing local law regarding budget revision and budget execution. Fourth, to perform improvements to drafts of local law regarding budget formulation and budget implementation, based on province evaluation together with the Executive Budget Task-Force (EBTF). Fifth, to perform discussion, together with EBTF, about the draft of budget policy, priority and temporary ceiling proposed by the exective's leader. Sixth, to give recommendations to the chair of parliament in preparing the budget for consideration by parliament.

## 4.5 The observed local governments

This study focused on one city and two regencies as cases of Indonesian local government budgeting. The observed local governments are the regencies of PM (RPM) and BK (RBK), and city of SM (CSM).  In terms of budgetary process, there are no significant differences in administrative structure between local governments at any level, as they operate in the same national political system. This applies to both regencies and cities, from which the visited sites were chosen. However, there are a number of important differences between cities and regencies regarding social, economic and government structures that might influence the budgeting practice. This

section discusses comparisons of the environmental settings of the observed local governments.

### 4.5.1 Comparison of social environmental condition

People from regencies are mostly farmers and fishermen, while people from cities are predominantly traders and service suppliers. A regency has a relatively larger territory but less population compared to a city. Education facilities are better in a city than in a regency. All of these social aspects might influence the priorities of a local government budget. In socio-economic aspects, regency tends to have less Product Domestic Regional Bruto (PDRB) than a city. Despite most local governments being highly dependent on the allocation of central government funding, the degree of dependency in the regencies is greater than in the city. This socio-economic aspect might contribute to the fiscal capacity structure of a local government's budget. Lastly, the government of a city manages only two sub-regions: sub-district, and village. However, the government of a regency also manages autonomous regions named as "*desa*" or translated as the country of a regency, although they also have sub-districts and villages. The country of a regency has their own budget agreed by their local legislature; therefore the regency's government usually provides funding allocation for their country's budget through grant allocation.

Table 4.1 illustrates a variety of social and environmental settings of the selected local governments.

Table 4. 1 Variety of social environmental setting of observed local governments

| Description of data | Regency of PM | Regency of BK | City of SM | Measurement unit |
|---|---|---|---|---|
| Population | 1,262,000 | 529,000 | 1,556,000 | inhabitant |
| Land area (data of 2011/2012) | 1,115.00 | 7,773.93 | 373.7 | Km2 |
| Number of organisational units | 23 | 36 | 34 | Organisational unit |
| Number of sub-district | 14 | 8 | 16 | Sub-district |
| Location | Java | Sumatera | Java | - |
| Local language and culture | Javanese | Malay | Javanese | - |
| Topological condition | Mainland | Archipelago (16 islands) | Mainland | - |

In terms of the social domain identified in table 4.1, the three local governments have various characteristics which mostly relate to population, location, topology, language and sub organisation. The regency of BK, located in Sumatra, has the smallest population of only 529,000 inhabitants, while its land area is the largest (7,773 km$^2$) among the three observed local governments. The territory is managed via 8 sub-

districts and the organisation consists of 36 agencies or departments. The people in BK speak Malay as their local language and its topology is that of an archipelago (16 islands). In contrast, the city of SM is the smallest land area of the three observed organisations, with only 373 km$^2$, but this local government is not only located in Java but also has the biggest population (1,556,000) among the observed sites. All of the observed local governments located in Java are on the mainland and Javanese is their local language. As a Java research site, the regency of PM consists of 14 sub-districts and 23 departments while the city of SM is managed by employing 16 sub-districts with 34 sub organisations. In terms of organisational structure, the executive organs of CSM include 34 agencies and 16 districts. This structure means that CSM has 50 SKPD to be considered when budgeting.

### 4.5.2   Comparison of financial conditions

In terms of finances, details for the three local governments are provided in table 4.2, related to the budget figures, observation of the budget enactment process and accounting choices. The information gathered in that table characterises several similarities among the observed field sites. It is possible to note that high dependency on allocated funds gained from vertical government, both central and provincial, occur among observed organisations. In fact more than 60% of the budget amount, in all cases, is funded from this allocation fund. Moreover, all of the observed organisations have developed and utilised information technology both in their budget formulation and execution. The absorption rate of previous budget execution is around 76 to 89 percent, with the lowest in the BK regency. This figure of unabsorbed budget indicates that all of the observed local governments create residual balances from budget execution every year. This not only becomes another source of funding for the next budget period but also may indicate several justifications such as efficiency, an ineffective budget or maybe there are 'over-target' revenues during the budget's execution.

Figures from different financial conditions are also highlighted among the observed local governments. The amount of budget (5.2 billion rupiah) in the BK regency is the biggest budget compared to the other two. Moreover, it is important to note that 91% of the budget source comes from allocation by the central government. The source of BK's fiscal capacity is also very specific, with natural resource revenue, gained from national sharing, as dominant.  Unlike the regency of BK, the budget figure of the PM regency and SM city are 1.476 billion and 2.6 billion rupiah respectively, where the budgets are financed dominantly by block grants and specific grants from the vertical (ie. central and provincial) government.

Another salient comparison issue is the accounting standard of government institutions in Indonesia. This standard provides an option for choosing a preferred method by either using cash towards an accrual system as a type of modified accrual basis or using a pure accrual basis when preparing financial reports. The regencies of BK and PM choose the former, while the city of SM employs the latter. Crucially, the BK regency could not legislate its budget before the end of December. The budget was enacted on 28th February, 2013, as a result of processing the budget out of schedule. The agreement for the budget policy was conducted in the middle of December; then there was not enough time to prepare the whole budget document for enactment before 31st December, 2012. Unlike the city of SM and the PM regency, the process of budget enactment at BK fails to comply with the time limit stated in the national regulations. The summary of comparison of budget figures and accounting approaches is presented in table 4.2.

Table 4. 2 Budget figure and accounting approach of the observed local governments

| Description of data | Regency of PM | Regency of BK | City of SM | Measurement unit |
|---|---|---|---|---|
| Total amount of budget | 1.476 | 5.2 | 2.6 | Billion (IDR) |
| *With assumption £1=Rp.15,000 then equivalent to* | 98,400,000 | 346,666,667 | 173,333,333 | GBP |
| Proportion of vertical government allocation (central and province) | 93.5 | 91 | 61 | % |
| Dominant source of vertical government allocation | Block and Specific Grant (DAU &DAK) | Oil and gas revenue sharing | Block and Specific Grant (DAU &DAK) | - |
| Dominant source of budget | Allocation from central government | Previous balance and allocation from central government | Local revenue and allocation from central government | - |
| Budget realisation rate (previous year) | 89 | 76 | 87 | % |
| The chosen accounting approach | Cash toward accrual | Cash toward accrual | Accrual basis | |
| Delivering budget policy to local parliament | 24/07/2012 | 18/09/2012 | 08/07/2012 | |
| Agreement date of budget policy | 12/10/2012 | 19/12/2012 | 08/09/2012 | |
| Final agreement of budget (2013) with local parliament | 28/12/2012 | 28/02/2013 | 17/12/2012 | |

## 4.5.3 Comparison of political environment

The political environment among observed local governments are quite different regardhing the characteristic of the politician, political parties and fractions of local parliaments. Different domination of parties in their local parliaments is the prominent issue. Power in the regency of BK is shared between three parties (PKS, GOLKAR and DEMOKRAT), while power in the city of SM and PM's regency is held by several particular parties. PDIP and GOLKAR have the biggest influence in PM's parliament, while the DEMOKRAT party is quite powerful in SM city. Meanwhile, the PM regency has 50 politicians in their parliament, which is the biggest number among the observed organisations. SM city has 48 members and BK has the least number of politicians, with only 40 members. Moreover, political environments might also be influenced by the current milestones of institutional goals, as stated by the top leaders in the strategic plan. The 2013 budget is the third stage of the five year strategic plan in the regencies of PM and BK, while it is the second stage for SM city.

Despite there being different political environments among three local governments, all top leaders are in charge for the first period of officiated leadership, as they have right to be elected only twice as a public leader in a particular regency or city. The comparison among the observed local governments highlight that political environments in the observed organisations have to be taken into account as prominent environmental backgrounds in this study. Table 4.3 presents a summary of the political environment comparison between observed local governments

Table 4. 3 Political environment of the observed local governments

| Description of data | Regency of PM | Regency of BK | City of SM | Measurement unit |
|---|---|---|---|---|
| Number of politicians in the local parliament | 50 | 40 | 48 | Person |
| Number of political fraction in the local parliament | 7 | 6 | 6 | Fraction |
| Milestone stage of strategic plan | 3rd | 3rd | 2rd | Year |
| Period of officiated top leader | 1st | 1st | 1st | Period |
| Dominant parties in local parliament | PDIP (11), GOLKAR (9), PKB (8), PPP (6), PKS (5), DEMOKRAT (5) | PKS (6), GOLKAR (5), DEMOKRAT (5) | DEMOKRAT (16), PDIP (8), PAN (7), GOLKAR (6), PKS (6) | - |

### 4.5.4  **The observed departments**

In this study departments of education and health are the primary organisational units investigated in all three observed local governments. A department of education has, as its main function, to manage the provision of public services in the education sector; similarly, the health department is to manage the provision of services in the health sector. Duties include preparing policy and formulating budgets for the functioning of their division, their direct service unit such as elementary, junior and senior high schools in the education department, and district health services named as "puskesmas" in the health department.

There is similarity of organisational structure in RPM, RBK and CSM, as all Indonesian local governments follow national guidance, published by MoHA. Departments of education and health are controlled by a head of department. The organisational structure of departments includes secretariat, divisions, and direct service units. All of the proposed budgets are officially coordinated by the secretariat, where the planning and evaluation sections play an important role in the budgetary process. The treasury and accounting units are also found in the finance section under the control of the secretariat. The treasury is in charge, in the role as cashier, making official payments based on instructions from the heads of departments or divisional managers, who act on behalf of the heads of departments. Meanwhile, the accounting unit records daily transactions and makes financial report to, for and of departments. The generic structure of the entire observed department is illustrated in the figure 4.2 below.

Figure 4. 2 Generic organisational structure of department
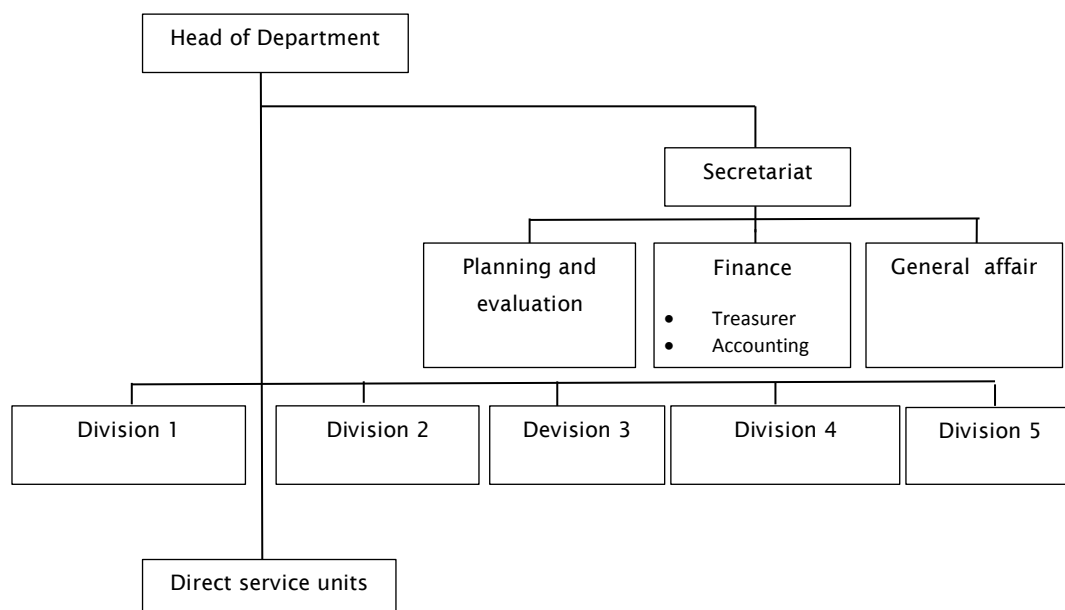


Despite similarities discussed previously, the organisational structure of both the education and health departments in the observed local governments have different

characteristics in terms of the labelling of divisions and grouping of functions.  For example, figure 4.2 is a generic organisational structure presented to reflect the education department of RPM, consisting of five divisions; while the departments of education at CSM and RBK only have four divisions. In addition, the naming and grouping of divisions are quite different in RBK, CSM and RPM. The function of elementary level schooling is 'stand alone' in RBK; however, RPM and CSM combine the function of elementary with other functions, such as nursery and high school, into one division.  During the budgetary process, divisional managers are in charge of preparing the detailed budget relative to their their divisions. Technically, this budgetary assignment is helped by officers from the secretariat in a department. The following sections provide comparison between the departments of education and health in all three of the observed local governments.

### 4.5.4.1  Department of education

The main responsibility of an education department is to help the regent or mayor to implement the authority given by central government regarding local educational services, as a reflection of the application of autonomy. In addition, a department of education is also responsible to help the central government in implementing national programmes conducted for local governments. To support this responsibility, the education departments of local governments are organised through divisions representing the functions of the local education sector. The comparisons of divisions in departments of education, among the three observed local governments are presented below in table 4.4.

Table 4. 4 Comparison of education departments among the observed local governments

| Description | RBK | RPM | CSM |
|---|---|---|---|
| Source | RBK law No. 13 / 2008 | RPM law No.12/2008 | CSM law No. 12/2008 |
| Divisions | 1. Elementary school<br>2. High and vocational school<br>3. Facilities and Infrastructure<br>4. Pre-school and informal school | 1. Nursery and elementary school<br>2. Junior and senior high school<br>3. Human resources of education<br>4. Youth and sport<br>5. Pre-school and informal school | 1. Elementary and high school<br>2. Pre-school and informal school<br>3. Human resources of education<br>4. Monitoring and development |

4.5.4.2  **Departments of health**

A department of health is an organisational unit responsible for managing authority given by central government in the field of health services. The responsibilities include formulating, implementing, and developing policy and programmes in the health field. Moreover, a department of health has the additional duty of implementing central government programmes prepared and conducted for local government. Therefore, divisions of the department are designed to support both local government programmes and the central government's programmes.  The comparisons of divisions in the three departments of health, among the observed local governments, are presented in table 4.5.

Table 4. 5 Comparison of health department among the observed local governments

| Description | RBK | RPM | CSM |
|---|---|---|---|
| Source | RBK law No. 13 / 2008 | RPM law No.12/2008 | CSM law No. 12/2008 |
| Divisions | 1. Health service<br>2. Controlling health environmental problem<br>3. Human resources of health<br>4. Health insurance and facilities | 1. Promotion for health and healthy environment<br>2. Family health<br>3. Prevention and eradication of the disease<br>4. Health service | 1. Health service<br>2. Prevention and eradication of the disease<br>3. Promotion for health and healthy<br>4. Family health |

## 4.6  Summary

This chapter presents descriptions of research sites that consist of three Indonesian local governments. Firstly,the chapter offers a general description of Indonesia and a short discussion about Indonesian local government. The review indicates that Indonesia has a specific environmental setting. Despite a massive population living in a group of islands embracing significant cultural diversity, Indonesia has become one of the world's most democratic countries; open and liberal with regards to the socio-political environment. Next, the discussions are followed by overviewing Indonesian local government with a particular regard to the issue of budgetary reform. The reform was explained through discussion regardhing two periods of local government budgetary reform. National government played the important role to guide the reform through the instrument of ministerial degree. The second period of budgetary reform seems being performed with more comprehensive regulations compare to the first reform. As complementary discussion of the reform, administrative structure of

budgeting practice was explained refer to the national regulation. This structure include the role of executive actors and legislators. The leader of executive actors are regent or mayor who are elected directly by the public through general election.  While, all of executive members or managers are public employee who are started their career as an officer. Similar to the top leader, all of legislators member consist of politicians who are elected directly by local public and proposed by the political party to public in the general election. These administrative structure obviousely influence the practice of budgeting in the context of the study which can be identified in several emergent categories generated in the coding analysis. Next, the discussion of the research sites are presented in the form of comparison among the three observed local governments. Despite accesability, the observed local governments are chosen based on representation of various environmental settings including political, economic, and social conditions. The variety of observed organisations are taken into account as important factors which might influence the budgetary practice performed by the organisational actors. The interview data are explored by the help of the environmental background of organisational actors identified in this study. The coding analysis of grounded theory study which consist of open, axial and selective coding are guided by this comparison of environmental settings of the observed local governments. The next chapter discusses open coding as the first step of data analysis in grounded theory.

# Chapter 5

# Open Categories

## 5.1   Introduction

This chapter provides descriptions of emergent open categories as a result of data analysis by employing an open coding technique. The description starts with an explanation session regarding the open coding procedures employed in this study as an overview of open coding analysis. The subsequent sections present detailed explanations of each open category.

## 5.2   Overview of open coding analysis

The critical analysis in the early steps of  grounded theory method is open coding. The analysis in this coding refers to the process of uncovering categories as many as possible that are considered by researcher as important actions, events, activities, functions, contexts, relationship and outcomes. Therefore, various data consisting of interviews, documents and observational note have been collected iteratively with coding analysis. Strauss & Corbin (1990) contend open coding is a process to break down, examine, compare, conceptualise and categorise data. In other words, open coding provides a tool for researchers to identify and even extract themes, topics, or issues in a systematic manner (Berg, 2001). The detail of open coding procedure has been discussed previously in the chapter 3.

Open coding in early analysis of this study begins by discovering the meaning of budget documents, regulations, observation and interview notes. As result of this early analysis, early categories have been coded through 216 early open categories. All of these categories were conceptualised; partly during data collection in the first field trip, with the rest being generated during and after conducting the second round of site visits. Coding was started since the first interview took place. The step of filtering the 216 early open categories was conducted by asking the importance of each emergent category for the practice of budgeting. The first grouping step resulted in 63 categories, while the second grouping step reduced the 63  categories to 27 that could be presented as final codes of this first round of data collection. The output of the open coding grouping analysis is presented in appendix III. The final open codes can be presented as follows:

I.     Reflecting central government's power
II.    Following norms of provincial governments

|         |                                                                            |
|---------|----------------------------------------------------------------------------|
| III.    | Following national regulations                                             |
| IV.     | Budget provision for vertical organisations                                |
| V.      | Maintaining a good impression                                              |
| VI.     | Performing purposive compliance for legalisation                           |
| VII.    | Securing image free from the prejudice of corruption                       |
| VIII.   | Practising old norms in the new budgeting system                           |
| IX.     | Managing flexibility                                                       |
| X.      | Preferring simplicity                                                      |
| XI.     | Harmonisation of interests                                                 |
| XII.    | Employing emotional based trust                                            |
| XIII.   | Performing transactional based trust                                       |
| XIV.    | Mutual distrust between actors                                             |
| XV.     | Distrust of the current environment                                        |
| XVI.    | Improvements resulting from the reform implementation                      |
| XVII.   | Disconnect between required reform and practice                            |
| XVIII.  | Ritual and ceremonial practice in reform implementation                    |
| XIX.    | Fear to be accused as subject of corruption                                |
| XX.     | Fear of losing power                                                       |
| XXI.    | Concerning an uncertain environment                                        |
| XXII.   | Difficulty with complexity  of performance-based budgeting requirements    |
| XXIII.  | Unsupported behavioural responses for the change                           |
| XXIV.   | Prioritisation games                                                       |
| XXV.    | Playing the game of dominance                                              |
| XXVI.   | Dependency on regulated reforms and data availability                      |
| XXVII.  | Unstructured approach and legitimacy-based control                         |

### 5.2.1 Reflecting central government's power

During the time of this study, the power of central government consistently appeared either from the meaning of observed documents or relevant national regulations and actors' perceptions in all observed organisations. The reflection of power can be represented by dependence on central government's funding, awareness of the importance of national policy, and conforming to national regulations and policies.

The dependency on the central government's allocation fund for the budget year 2013, could be seen in all the observed local governments, where the city of SM (CSM) was the lowest compared to others and the PM regency (RPM) was the highest. The budget (5.2 billion rupiah) for the regency of BK (RBK) is the biggest of the three. It is also important to note that 91% of the budget is sourced from central government allocation. The source of BK's fiscal capacity is also very specific, with natural resource revenue, gained from national sharing, as  dominant.  Unlike the BK regency, the budget figures for the PM regency and SM city are 1.476 billion and 2.6 billion rupiah respectively; where the budgets are financed predominantly from block grants and specific grants from vertical government.

Moreover, the power of central government was reflected in actors' perceptions regarding dependency on central government funding. Predictions of the allocation

fund depend on the central government's calculations; however, the amount cannot be anticipated rationally by local government actors as depicted in the following quote:

> [...] The way to forecast revenue budget refers to the ministry of finance decree, given each year of budget, which inform the allocation of BK local government. In fact, the decree always predicts the amount based on pessimistic assumptions. As the example of BK, the predicted amount for the year 2013 is around Rp.2.7 trillion based on national projection of oil lifting gained from our oilfield and the dollar exchange rate. This prediction is highly pessimist and the realisation usually far from that amount. Last year, we note the difference of realisation from the predicted amount is around Rp.1 trillion. This make us always have an unpredicted huge balance in the end of year budget [...] (Head of revenue office at RBK)

The regency of PM and SM city also experienced figures similar to RBK; all interviewees raised the issue of dependency on central government as the right expression of interview data. However, their sources of revenue are predominantly from the block grant and specific grants; a situation which does not apply to the regency of BK. The amount of allocation is perceived to have a significant impact on the budget amount as represented in the following quote:

> [...]We surely agree that our government could not operate continuously if we do not have fund allocation from central government. In fact, our local revenue cannot follow the increase of expenditure that is partly as impact of central government decision such as the increase standard amount of personnel salary [...] (Head of budget officer at RPM).

Another national fund allocation could also be identified in national budget programmes, operated in local areas, that require sharing of the budget commitment from local government. This practice was noted, during observation, as part of the efforts of local government officers taking the opportunity to get additional fund allocation from central government. The central government programmes are either formally allocated, as part of the local government's budget, or separately managed from the enacted budget.

Subsequently, efforts to conform to national regulations and policy represented another reflection of central government's power. Synchronisation between budget accounts and government accounting standards are problematic. Very few personnel, who are available to perform accounting, have professional accounting qualifications. Most officers not only lack such training but also experience a lack of spirit and encouragement from the agency's managers to employ and support the role of accounting information and data for decision making. Mostly, accounting matters have been delegated to particular personnel who are taken into account as competent staff in accounting for conformance purposes. As a result, for technical reasons they struggle to synchronise budget accounts with accounting standards. In the worst case, presenting financial report through outsourced staff occurred in RBK. Other conforming efforts are adoption of national performance measures and replicating

national regulations as local government regulations. From actors' perspectives, the norm of central government in developing performance measurement, as a benchmark for local government, can be represented in the following quote:

> [...]To be honest, we could not develop performance measures by ourselves. In fact, we usually employs national performance measure developed by national health department such as their statement of minimum service standard (namely SPM) and measures stated in national strategic plan [...] (Key personnel of DE at RPM).

Finally, reflection of central government's power has emerged based on the awareness of actors about the importance of national policy. The actors in all observed organisations prefer to formulate local policy whose fundamental concepts are based on national policy. They avoid innovation without any regulation-based concept that can be utilised to justify a formulated policy. Moreover, they always seek explanation of contradictory national rules from central government. Ministery decree or policy often becomes the main reference of and for their actions in budgeting. A local government's budget is part of state finance, declared in national law; therefore it is a salient perception that national policy is a crucial concept in formulating local policy.

As the result of national reform, local government budgets (APBD) in Indonesia have implemented new budget structures that basically comprise of three groups of general accounts: revenue, expenditure and financing. The pre-revised system, which was previously in place, merely consisted of revenue and expenditure. Despite the national budget structure being officially changed at the start of the second round of reforms (after enactment of national law No 17/2003 regarding financial state), these three budget accounts had been used in the local government organisations since the first round of reforms, as guided in MoHA regulation No 29/2002. Performance-based budgeting has been declared as the prescribed national system throughout government organisations in Indonesia. Accounting standards have also been established and started to be employed in local government since the second round of reforms. This is a consequence of national regulation restating importantly that local government budgets are a part of state finance.

### 5.2.2  Following norms of provincial governments

As vertical government, the role of provincial governments in Indonesia is as representative of central government in a particular province as stated in national law. This rule has a significant impact on actors' perceptions in all the organisations observed in this research. Following the norms of provincial governments is an open category that has emerged from data of the research. This category was highlighted from the following sub-categories: awareness to importance role of province

government, compliance with province policy, and benchmarking norms of their province.

First, actors of local governments are clearly aware of the  important role of provincial governments. It has been explicitly declared in national legislation that a provincial government is representative of central government. A province's government officially represents the presence of central government in a region where local governments are located. In the context of the budgeting process, their important role is usually as the proposal coordinator of local governments' programmes when central government funds will be allocated to the proposed programmes or activities based on provincial government recommendation.  In this matter local governments, whether regency or city, are highly dependent on to what extent their grant proposal can be legitimated and supported by their provincial government. Another important role of the province also exists in monitoring and evaluating functions such as in the area of enactment date, allocation of certain expenditure and programmes, and consistency with both national and provincial strategic plans.

Second, another form of provincial governments' influence can also be noticed when local government actors are concerned with the need  to comply with provincial policy. Coherent local government programmes designed to meet provincial government objectives is one important consideration commonly utilised in the process of budget scrutiny. Despite the scrutiny being a subjective process conducted by provincial officers, local government actors often presume a subjective judgment of the officer as a policy. They merely focusd on a province's approval of their local government budget, which was evaluated by provincial officers. Hence, actor or groups from local government become highly concerned with justification statements focused on the proposed activities, as the province will evaluate and monitor the consistency of local objectives with their policy. This concern over compliance with provincial policy can be represented in following quote.

> [...] As long as we could provide rational explanation regarding relation of our proposed activity with the province's policy, the evaluation from province can be done easily[...] (CFO of RPM).

As a form of benchmarking, local government actors taken into account province government when often do similar action. For instance, budget policy formulation can be changed during budget operationalization, although the policy has been enacted through political agreement. That the actors utilise the province's norm can be seen in the quote below.

> [...] As long as the province's government still does the same thing, then we do not expect to change our practice [...] (CFO of RBK).

Moreover, it is a common practice when national norms are also employed by the provincial government for verification purposes. For instance, the method for implementation of national standard of 20% minimum allocation for education has been considered as an important matter for verification purpose. Provinces often develop a particular formulation to verify the existence of 20% education allocation in the budget; this formula also becomes a benchmarking practice for local governments.

### 5.2.3 Following national regulations

National regulations are actively followed by actors involved in local government, through anticipating the development of national rules and synchronising with local regulations. All observed local governments always allocated funds for training and development of personnel involved in budgeting; as reflected in the budget under the programme of training and development of finance staff.

| Name of Programme | RBK | RPM | CSM |
|---|---|---|---|
| Programme of training and development of finance staff. | Rp. 287 million | Rp.15 million | Rp. 21 million |

This allocation is intended to anticipate dynamic change of regulations published by the national government, as local governments need to quickly update the regulations through their staff who are involved in the budgeting process. Another option to deal national regulatory change is by hiring national consultants who become directly involved in formulating national regulations to assist the budgetary process.

Synchronising local regulations with the national regulations occurs in the form of replicating ministerial decrees in the local regulations and adopting statements of national performance measures. These efforts of synchronisation are reflected in the two following quotes.

> [...] If you ask me why our local government's regulation seem to replicate the Home Office Ministrial Decree with small adjustment, the answer relates to our intention to ensure our conformity to the national regulation [...] (CFO of CSM)

> [...] At least, I could clarify easily that the performance measures of education sectors written in the proposed budget document  synchron with the national performance measures as published by national education department [...] (Head of education department at RPM)

### 5.2.4  Budget provision for vertical organisations

Vertical organisations were perceived as having an important role in the practice of budgeting. The organisation can be a national agency or department located in the local government's area of operation such as a higher education organisation, a specific education organisation, police and military, etc. As result, local governments often provide a budget allocation or a provision sharing budget and maintain service capacity for a vertical organisation.

Local government actors perceive the budget allocation for a vertical organisation as an inevitable action. The nature of the allocation can be operationalised through either a grant budget for the vertical organisation and income allowance for personnel from that organisation or sharing a funded programme, as was reflected in the following quotes:

> [...]We have to allocate a grant for financing the activities beyond our authority as this already becomes a political commitment of our leader to support the development of higher education in our area. This kind of grant can be identified for organisation such as the state university located in our area [...] (Head of budget officer at RBK)

> [...]It is a normal situation when we have to provide additional income for national police, army and other vertical organisation's personnel, as long as it is for public service [...] (Head of budget officer at CSM)

These budget allocations are often accompanied with allocation for maintaining service capacity of the vertical organisation. Providing assets to support the national police or army, such as building offices, providing vehicles and other similar assets is unavoidable behaviour in local government budgeting.

Another budget provision for vertical government was also noted in the national or province programmes that are conducted in local government areas. These programmes will only be given by vertical government if there is a commitment in the form of a shared budget from local government, as represented in the quote as follow.

> [...]Central government and provincial programmes that are performed in local area have to be assisted with certain amount of local government budget allocation since these programmes will never allocated if no sharing fund from us [...] (Head of budget officer at RPM)

### 5.2.5  Maintaining a good impression

Maintaining a good impression during the implementation of performance budgeting has been considered as an intentional action of most actors. This belief existed in two sub categories: maintaining a good image of the top leader, and in the performance budget for political purposes, in order to attract constituents.

There were perceptions that the most priority programmes are realization of political jargon or promise of top leader during election. These kind of programmes significantly influence managers in operationalising their organisational budgets with performance measurement as represented in the following quotes.

> [...]As free of charge in health service, especially for poor, around the local area was a campaign statement of our top leader, we focus many resources to be allocated to support this program [...] (Manager of health department at RPM)

> [...]To be honest, many programs have to be harmonized with top leader political promise stated during election campaign. We have obligation to secure top leader image through budget prioritization [...] (Key personel of planning and development agency at RBK)

In a similar situation, politicians as members of the local parliament, also use their role in budgeting to attract and maintain their constituents' support. They often ask the EBTF to allocate certain amounts for grant budget to support this purpose. Another practice related to the political environment, performance information regarding the budget, is often utilized to communicate promising outcomes to the public. Achievement of certain indicators always becomes a medium for maintaining the members' political positions. Managers and members of the local parliament have played their role in branding communication through designing or selecting, and verification of proposed budget, as budget formulators and legislators respectively.

### 5.2.6  Performing purposive compliance for legalisation

The actors are consistently concerned with conformity to national rules and regulations. They take into account the importance of the enactment date of a document when used for either budgeting or reporting. Moreover, reward and punishment are perceived as important considerations for conformity.

Managers and members of parliaments believe that the enactment date of a national rule relating to conformity must be taken into account seriously, as conformance for creating a good image in the first sight. Managers are usually concerned with a province's evaluation and monitoring of enactment dates, as seen in the following quotes.

> [...]We have to synchronize our entire schedule in budget discussion with budget enactment date as required in national regulation [...] (Chief financial officer at RPM)

> [...]As long as we can enact our budget not more than 31 December then province government evaluation and monitoring will be easy to manage [...] (Chief financial officer at CSM)

Managers and members of parliament also revealed their perceptions regarding the reason why they always try to conform to all of rules within budgeting practice. The

actors perceived that failure to conform could lead to punishment from vertical government, while successful conformity to regulations might contribute to a reward for the local government budget, either from the central or provincial government. These actors' perceptions were identified during budget policy formulation when conformity to national or provincial objectives should be accommodated as an instance of conformity. The actors' belief that reward, as a result of conforming, will usually materialise in the form of obtaining consistent budget allocations from central and/or provincial government.

### 5.2.7  Securing an image free from the prejudice of corruption

Actors or groups of local governments tend to protect budgeting practice from the prejudice of corruption. They perform sagacious transparency as they will only publish information that could create a good image of their organisation, and they only disclose information regarding their budget that conforms explicitly to the regulations. At the same time, actors or groups actively manage the information that can be shared publicly for press and other mass media consumption.

During the field observations, sagacious transparency was noted during the budget policy formulation, budget operationalisation and execution, as well as in financial reporting. For example, executive actors of RBK tended to only publish general amounts of budget details on their official website, and actors in both CSM and RPM published details of their activities. They have their own intention about their actions regarding transparency. Actors of RBK intended to avoid disclosure for a matter that is not stated by regulations, and also declined to publish information about a matter that could possibly create suspicions about a corruption issue. Meanwhile, actors of CSM and RPM only disclosed information as explicitly required by regulation; whilst ensuring the  publishing of any good achievement or performance.

At the same time, actors or groups also manage the press through the budget. They often provide a transport fund for press workers and provide press conference facilities in the local government offices. This effort is mostly intended to 'control' and balance the bad news that can be published by the press; often based on data gathered from non-government organisations (NGOs). By such efforts the press can be managed and encouraged to publish more good news than bad news about local government performance, especially relating to the budget.

### 5.2.8  Practising old norms in the new budgeting system

Current practice of budgeting presents the persistence of previous budget norms, accompanied by ritual procedures in budget allocation. It is possible to assume that

this persistence is needed to ensure their organisation could continue their function and role without any direct instability resulting from the budgetary reform. Ritual procedures have also been employed as a medium for maintaining balance in terms of managerial stability.

As a persistence of the previous norm, various forms of old praxis still exist in the observed organisations. The old praxis of routine budget or repetitive, incremental and input-based budgeting was identified in the process of budgeting. A routine or repetitive budget means that the budget was prepared by referring to previous periods' allocations that have been considered by actors as an unavoidable expenditure; a sunk cost of organisation. Meanwhile, an incremental budget was practised as the strategy to simplify calculations when adjustments for the change in the economic environment already existed in the estimates. An input-based budget, known as a 'traditional system' in the literature, was identified as justifying the actors' needs to perform routine activities in their organisations.

Firstly, the old praxis was identified in the observed organisations reflected in the practice of repetitive budget. Organisational actors can not eliminate routine expenditure as seen in the following quote.

> [...]Usually, department of planning and development (called Bappeda), as a member of verification task-force (EBTF), asks why several activities always come out every year and the results of these activities. I justify those questions by explaining that the queried activities are our main jobs and function, termed as "TUPOKSI", therefore it is impossible to throw away from the budget.[...]( Head DE of BK)

Secondly, another old praxis is the practice of incremental budget. Despite the commitment in implementing performance budgeting, organisational actors often allocate budget based on incremental amount calculated from the previous year budget as reflected in the following quote.

> [...]We try to implement the concept 'money follows function', but in the real world ...money is limited ...thus adding budget amount from previous year's budget with certain percentage is a common technique to ensure sustainability of our service. [...] (Key personnel of DE at RPM)

Thirdly, traditional approach which rely on input based budgeting still exist in the practice as reflected in the following quote

> [...]I would like to say that government budget seems still project oriented where they only focus on the allocated amount in certain projects without concern more on the expected result.[...] ( Politician of CSM)

Ritual procedures can be identified in dimensions of practices, such as top-down allocation, rhetorical bottom-up based allocation, basic allocation based on the previous year's allocation and its performance of realisation, and last minute cutting

off to synchronise with final fiscal capacity. All these dimensions seemed to occur regularly in the three observed local governments.

### 5.2.9  Managing flexibility

Existing performance budgeting practice also managed flexibility for elastic allocation and using rhetorical performance budgeting elements. As in the category of practising old norms in the new system, stability becomes an important concept due to the need to maintain the positive impact of the reform. Continuity of organisational role and function, as result of being stable, could be obtained.

Rhetorical performance based budgeting has been practised for the purpose of elasticity, meaning that actors utilise this approach to ensure dynamic interests can be accommodated during the budget allocation process. Previous performance was perceived by managers as guidance for estimating their next allocated budget. The more rational performance indicators have been formulated, the less flexibility may occur or be in evidence. In contrast, the more ambiguity of performance measurement, the more flexible execution of allocation can be obtained. This rhetorical performance budgeting can be represented in the following quote.

> […]To be honest, we often formulate ambiguity measurement that cannot be measured rationally in budgeting with regard to flexibility of the budget. We don't want to get problem when dynamic interests occur […] (Managers of DE at RBK)

To avoid difficulties in performance measurement, actors in budgeting also agree with budget allocation for the purpose of elasticity. They believe through allocating allowances, and employing a budget revision agenda, such an approach could manage dynamic interest that might appear throughout the year of the budget. Allowance can be identified in the budget such as grant, social allowance, and miscellaneous account. Through this kind of budgeting accounts, flexibility can be managed properly, by either using a revision budget agenda or directly executing the budget account.

### 5.2.10  Preferring simplicity

Actors prefer budgetary practice that supports simplicity of budgetary reform implementation. This includes actions that consider ease of realisation and tends to take into account the middle way of political agreement in the reform implementation.

Considering easiness in selecting an action from possible alternatives was noted during budget formulation and budget execution. During budget formulation, actors often replicate the previous budget proposal to prepare the current year's proposed budget; a procedure based on reasons of simplicity. Many proposed activities might be similar, including the budget structure, when compared to the previous year's

activities. Thus, it is more convenient to edit the previous year's budget proposal rather than develop a new one. In some new proposals, actors avoid providing detailed explicit measures as they prefer to avoid difficulty when there is dynamic change; rather than make the written performance measurement become irrelevant. Similar reasons to avoid difficulties are also considered before implementing accrual basis accounting during budget execution, as reflected in the following quote.

> [...] I suggest to the manager to suspend the implementation of accrual basis in our accounting system as it is not obligatory choice at the moment. We don't want to get into difficulty when our human resources, including Member of Parliament, cannot easily understand financial information produced by accrual basis of accounting [...] (Key personnel of CFO's office at RPM)

During budget discussions, preferring simplicity was also highlighted in the form of the middle way of political agreement. Budget policy agreement that was generated by executives and legislators can be agreed temporarily and might be changed during budget policy operationalisation. As a political process in the budget discussion, the decisions of actors often have a tendency to follow and ally with the dominant opinion. This action is reflected in the following quote.

> [...] Following dominant opinion is the simplest way to make decision. This includes when we interpret the new system [...] (Politician at RPM)

Moreover, the middle way of agreement can be also noted during interaction with provincial government. Evaluation results of the local government budget, issued by the provincial government, can be negotiated informally before receiving the final decision, in order to make the process of external evaluation both controllable and manageable.

### 5.2.11 Harmonisation of interests

Interaction between managers and politicians, interest between the local government and the vertical government during budget formulation, and verification are all part of the research themes that emerged during data collection. Principally, conflicts of interest inevitably occur, not only due to the nature of political process but also as the consequence of the environmental context of the reform. Harmonisation of interest was the open category that emerged from the grouping of early categories. The categories look at the following dimensions: accommodating various interests, bargaining and negotiation for compromised allocation and compromised agreement through formal meetings.

Due to conflicting interests, actors attempt to accommodate various interests of stakeholders. For instance, managers make the effort to accommodate politicians'

interests, and vice versa, by maintaining intentional communication in the budgeting process, during implementation of the new budgeting system. Moreover, actors seem to manage the required regulation of local government authority by practising compromising strategies that can accommodate political interests, as well as the central or provincial governments' interests. The efforts of actors are presented in the following quotes:

> [...]As current regent's special programmes, he would like to establish five (5) polytechnics in the area of RBK. Logically, a polytechnic is the same as higher education institution and this is not in our authority. Therefore, we allocate our budget for this objective by providing stimulus fund for current polytechnic or prospective organisation that can facilitate the establishment of new polytechnics.[...](Head of budget officer at RBK)

> [...] We have to manage carefully information about projects that will be funded by central or provincial government during the budgeting process. Usually, we adjust our initial plan when we know our several projects are going to be funded by central or provincial government. Despite the projects as part of our authority, they still can budget legally due to national or provincial interest. [...](Head of budget officer at RPM)

This accommodation for interest harmonisation was also obtained through bargaining and negotiation. The politicians inside the local parliament actively use their influence to develop agreements during budget formulation. They often employ their constitutional right by infusdirecting their interests towards the managers' programme or directly propose new programmes that will be executed by managers. However EBTF, as the executive budgetary task force, usually supports negotiation and tries to accommodate the local parliaments' interest for budget agreement, as represented in the following quotes:

> [...]Yes ... principally politicians have interests and we also have own interests... final agreement can be developed when all interests are accommodated. [...] (Key personnel of CFO's office at RBK)

> [...] SKPD (Department or agency) often propose budgets exceeding the initial allocation due to additional proposal from politicians that must be accommodated. [...] (CFO of RBK)

Despite a formal forum being the preferred way to discuss the proposed budgets of both managers and politicians, some interaction is conducted informally. Informal meetings are perceived as a medium to accelerate understanding between actors. The actors also tend to believe that informal interactions also help to identify various interests between actors, after which harmonisation can be obtained easily. However, most actors agree that all decisions made during interactions at the time of the budgeting process are finalised and ratified in formal meetings. Representative examples of the interactions are presented in the following quotes:

> [...] Yeah...I cannot reject directly proposed budget gained from outside formal meeting especially from politicians who might bring aspiration from the public....Usually, I will ask them to sign formally their proposed budget in documentation paper that will be a

> subject to be discussed later in a formal meeting….    […](Manager of planning and development agency at RBK)
>
> […] Emmmm…we all agree that final decision regarding verification process must be in a formal meeting as it is regulated in our guidance derived from government regulations.[…] (Member of Local Parliament of RPM)

### 5.2.12 Employing emotional based trust

Emotional based trust involves respect being shown to senior actors and those with leadership charisma. This type of trust was interpreted by looking at interactions between actors during budget discussions. Cultural backgrounds clearly determine the way actors make decisions in budget discussion during reform implementation. They avoid conflict or directly challenging each other as they have emotional relationships that clearly influence their decisions and general conduct.

The concept of respect to the seniors dominantly appears in both RPM and CSM. Despite the conflict of interest also occurring in RPM and CSM, political culture and politician influence are quite distinct, compared to RBK. First, political cultures in RPM and CSM are relatively influenced by Javanese political culture. In both local governments, hierarchical relationships and interaction seem to exist between EBTF and managers when EBTF becomes the centre of decision making during the budgeting process. As members of EBTF, managers would tend to avoid explicit disputes regarding disagreement about the budget, as they show respect to the 'elders' or those holding higher managerial positions. If the managers are still junior, then they often 'borrow' other senior managers' authority, which has the same or higher level to their counterpart in the process of negotiation. This political culture can be represented in the following quotes:

> […] Sometimes several managers find it almost impossible to disagree with one of the respected managers… what they did was "nabok nyilih tangan" (It is a Javanese expression meaning using another manager's authority to defeat the interest of the respected manager) …This is the way to negotiate effectively with the respected manager as their counterpart. […] (Observation note CSM)
>
> […]They always show respect to their senior perspective in EBTF …They cannot directly counter their argument even it is irrational for efficiency or for the achievement of their organisational objective. […] (Observation note in RPM)

Leadership charisma is another concept of emotional based trust. In this type of trust, actors view their leader as a role model and then they tend to trust that leader's thinking or action as a good example. In all observed local governments, they often easily and willingly follow the way of their leader in constructing problem solving. However, this loyalty can sometimes be counter-productive, if the decisions are

unfavourable for themselves. Equally, if their leader lacks or has lost their charisma, they will choose their own way.

### 5.2.13 **Performing transactional based trust**

Trust is often based on transactional actions. This type of trust involved two early sub-categories: repaying clanship and performance achievement based allocation. Clanship was utilised for handling strained political interactions, while performance achievement is the medium via which to manage allocations.

RBK has more strained political interactions between top leaders and politicians than either RPM or CSM. This distinct environment was reflected in the interaction between managers and politicians, and among the managers involved in budgeting. Senior managers of RBK perceived that their specific political habits of "*saling memegang tali aki*" ("holding their battery strap to each other"), meaning pressuring each other by utilising the weakness of the actor's counterpart, were clearly visible in the interactions. This perception can be represented in the following quote:

> […]In this our culture there is a broad terminology ...."kalau sudah terpegang tali akinya…susah orang akan bertindak sesuai keinginannya" (If someone's battery strap has been held by their counterpart …then they will find it difficult to conduct negotiations independently) (CFO of RBK) […]

In response to the political environment, managers perceive that political actions are needed if they want to get good position in their jobs. This political culture has embedded itself in the system, reflected in actions of senior managers in daily life within their organisation, that definitely influences the budgeting allocation process. This political belief of actors in RBK is represented in the following quotes:

> […]Because of the existing practice of local government organisational system…Usually, the winner of general election, who will be appointed as a regent, tends to bring their appointed manager from outside organisation… then the existing manager will be replaced with new personnel and the replaced manager will not have any position in organisation. This is my personal experience as province's officer …For that reason, I have decided that I should be a player, thus …I and the current Regent have played this game in RBK when we finally won the local election.[…] (Head of revenue office of RBK)

> […] I believe …only several managers who have very close relationship with the current regent that have the privilege to influence significantly the budget allocation […] (CFO of RBK)

Transactional based trust also occurs in the form of expecting reward from targeted performance achievement. This trust can be an expectation of reward for achieving effectiveness of programmes, high absorption rate of budget execution and reward for getting personal incentives based on particular performances.

### 5.2.14 Mutual distrust between actors

There are two sources of mutual distrust that occur between actors. These involved different expectation causing mutual distrust due to different interests.

Distrust between actors comes up initially from the existence of different expectations. Budget allocations and actors' expectations often differ, thus distrust occurs. More specifically, interactions between Chief Financial Officers (CFO) and Chief Operational Officers (COO) or managers are frequently difficult, as they are often informed by mutual distrust, rather than mutual trust. For instance, expectations of a COO are mostly focused on their specific measurements relate to targeted achievement in their organisational roles and functions. On the other hand, a CFO tends to expect to allocate limited resources to all of the organisations in their local government. This situation is illustrated in the quotes below.

> [...]I believe allocations are never enough for each agency. Therefore, I have to make budget allocation policy that can fund all agencies or departments, although it cannot satisfy all of their needs. [...] (CFO of RPM)

> [...]I don't have any idea why CFO reduces and cut off many budget that are very important for quality of public service delivery. I hope they can discuss it before cutting of. [...] (Manager of DE of RBK)

Mutual distrust springing from different interests occurs more specifically between politicians and the budgeting task force team (EBTF) and between planning managers and operational managers. Interests of politicians relate to their concerns regarding their support of their constituents, while the EBTF seems to look at the public as a whole community. Mutual distrust also occurs inter as well as intra-organisationally in local government, when planning managers with interest to secure the implementation of a strategic plan, contrast with operational managers who are focused on tactical decisions and daily activities. Operational managers often suggest a strategic plan is not operationally well defined, while planning managers find it difficult to guide their operational managers due to utilising a short term decision making framework at the operational manager level.

### 5.2.15 Distrust of the current environment

There are two form of distrust of the current (financial and accounting) environment. These consist of pessimistic behaviour associated with budget execution, and distrust of the predicted benefits of the reformed accounting model.

Behavioural change of budget execution was perceived by actors as offering no significant change. This pessimistic perspective represents the actors' distrust of the

current (financial and accounting) environment. In the real practice of procurement, actors perceive that there is difficulty to conducting purely objective procurement. They do not trust the fairness of the system when it is practiced in real life. The system is also perceived as involving complicated procedures that contribute to difficulties in behaving fairly. Referring to interview data; fairness is impossible to achieve if the procurement's participants mostly have unstandardised parameters and various organisational qualities, as reflected in the following quote.

> [...]If you become the officer who runs the procurement, you have to deal with the difficulty of selecting the winner of the bidding process. Unstandardised capacity and quality of participants may contribute to a bad judgement [...] (Key personnel of planning and development agency at RPM)

Distrusting the benefits of the reformed accounting model is to distrust the current budgetary environment. Referring to the observations made in all three local governments, the distrust can be reflected in the perception of the lack empowerment of accounting personnel, scarcity of (qualified) accounting personnel and a lack of personnel with proper accounting competencies employed inside agencies or departments. All these perceptions relate to the presumption of actors or groups that the budgeting process is perceived as a separate system to accounting, as highlighted in the following quote.

> [...] I think the executive never systematically employs accounting information to prepare the proposed budget. Accounting is just information regarding assets without any consequences on the budget [...] (Member of Parliament at CSM)

### 5.2.16 Improvements resulting from the reform implementation

There are four perceptions of actors regarding improvements obtained from the reform. The improvements involved mechanistic improvement in budget operation, public empowerment, greater concern over external monitoring tools, and the main principles held in budget formulation.

Actors have become more aware of the external monitoring tools. The role of performance based budgeting system has contributed to the improvement of monitoring tools. Some performance measures have been standardised by central government, regulated through national rules; therefore central and provincial governments could easily evaluate the local governments' achievements. Usually, the standardised performance measures relate to infrastructure development. Moreover, through this new budgeting system, performance indicators have been perceived as a medium for public monitoring, as reflected in the following quote.

> [...] Nowadays, non-government organisations and the press actively monitor our development achievements through performance indicators stated in the budget proposal [...] (CFO at CSM)

Other developments are mechanistic improvement in budget operation and public empowerment through the budget. The former relates to the change of budgetary procedures, such as combination between top-down and bottom-up allocation, and the use of detailed performance indicators. The latter explains the development of the budget's role. This includes the allocation of a grant to fund and facilitate public empowerment, stimulate public involvement, and supporting allocations from vertical government for local community development.

Despite all of these developments, the budgetary reform has significantly changed the perceptions of actors regarding the main principles held in budget formulation. The perceptions involve the need to link performance with strategic planning documents for managerial control purposes, and to direct more concern to accountability and transparency.

### 5.2.17 Disconnection between required reform and practice

Organisational actors perceived that the reform implementation has demonstrated a disconnection between the required reform and actual practice. The real practices of reform implementation includes practices that relate to unlinking between elements of the strategic plan and elements of the budget, funding mode for covering budget deficits, and unintended results from the reform.

One of the most important instruments of the PBB system is the strategic plan. This instrument contains five years' worth of planned programmes of local government; derived from and informed by the vision and mission of what the regent or mayor promised the public during the election campaign. The strategic plan document mandates the outcome and output of each planned programme as guidance for the proposed programmes and activities in the budget. However, some planned outputs of programmes proposed in the budget become disassociated with the output anticipated in the strategic plan. Organisational actors revealed that this inconsistency is possible when the strategic plan cannot predict all of the dynamic demands within the budgetary process, as instanced in the following quote.

> [...]I would say ...it is difficult to ensure that SKPD (organisational unit) would formulate output as intended outcome required in RPJMD (strategic plan). The outcomes of RPJMD are often considered as irrational target for the manager of SKPD. The expected outputs required in the budget are often different with the strategic plan [...] (Key personnel of planning and development agency at RBK)

Another disconnection between the required reform and practice can be noted in the practice of funding for covering any budget deficits. The PBB system requires

performance not only for planned expenditure of activities but also performance for revenue generating. A budget deficit can be covered by funding such as from loans and savings. In the real practice observed in all local governments, saving is the most common funding. However, saving as a funding mode for covering budget deficits has demonstrated that implementation of the PBB system is, at times, still far from the intended result. Saving in the form of previous fund balance mostly comes from the fund of unfinished activities, rather than the savings resulting from efficiency. All of observed local governments had significant amounts of funds saved from the previous budget.

Other unintended results of the reform can also be highlighted in the practices such as performance measures based on absorption rate of budget, and developing asset accounts that are unmatched with capital expenditure. These instances of unintended results of the reform relate to the implementation of the PBB system. In addition, disconnection between the required reform and real life practice still continues in those local governments which have implemented advanced accounting systems. Although CSM has implemented the accrual system, the accrual information has never been employed for budgeting purposes. The budgeting system of CSM is still cash based.

### 5.2.18 Ritual and ceremonial practice in reform implementation

There are three practices ritual and ceremonial practices: committing symbolic performance measurement, ritual practice in conforming to the legal requirements, and ceremonial practice for conformity.

Referring to the field observations, symbolic performance measurements are often employed in formulating the proposed budget. The written performance measures may not be able to explain explicitly and easily the relationship between the intention of a proposed activity and its result in budget realisation. Normally, performance measurement will be matched against the targeted performance of the strategic plan in monitoring the achievement of performance. In reality, achievement of strategic plan's targeted performance can be negotiated amongst the actors, as the spirit of flexibility influences the process in generating consensus. This flexibility is definitely needed when dynamic political interests should be reflected in the formulated performance measures.The symbolic practice can be reflected in the following quote.

> [...] As long as the primary performance of our SKPD (department) has been accommodated in the strategic plan documents of local government, therefore another new plan, emerging during the budget execution period, should be synchronised with the name of targeted performance stated in the RPJMD (strategic plan of local government) [...] (Manager of DE of RBK)

This symbolic practice is also accompanied by ritual and ceremonial practice in conforming to the reform requirement. As a ritual, actors or groups often 'agree to disagree' or manage a temporary agreement involving more focus on short term oriented performance measures. Meanwhile, ceremonial behaviour is noted in practices such as the enactment of the budget, in the process of budget verification and during budget allocation, when there is strict adherance to the nomenclature regulated by the central government.

### 5.2.19 Fear to be accused as subject of corruption

Actors of all observed local governments revealed directly or indirectly their fear regarding the possibility of being suspected of corruption.  This fear was perceived as a consequence of external monitoring pressure and  worry about being blamed for breaking corruption laws.

Monitoring pressure from the external environment arises from non-government organisations, and the press, that actively contribute critical observations regarding the performance of the central, provincial and local governments in providing public services. These pressure were perceived as a consequence of democratisation process, where freedom of the press and public involvement have inevitably formed a control mechanism for public entities. This control mechanism seems mostlye concerned with corruption cases, as reflected in the following quotes:

> [...] In this era, we definitely find it impossible to conceal bad performance from the public especially on corruption cases. In fact, we were previously used to safe by the system where President Suharto was very powerful to limit bad information to public, including corruption. Therefore, we got a bit struggle and should engage with this new environment when press and NGO have power to monitor us. [...] (CFO of RPM)

> [...] The case of our mayor, who was recently caught by the corruption fighting commission as he was suspected to bribe politicians through his key managers for budget agreement, has contributed to the fear of managers and politicians who were involved to that unlawful action. Most of press and NGO always actively monitor the progress of the case [...] (Key personnel of planning and development agency at CSM)

These public controls either from press or from non-government organisations have implications for the way of actors engage with this external pressure. The actors in all observed organisations try actively to develop a good image as they often attempt to get unqualified opinions from the national audit board. They often hire professional consultants that can direct that intention. Moreover, they tend to develop good relationships with key law enforcement officers, by providing indirect privileges either personally or organisationally.  Providing budget support for their operational jobs or giving an honorarium to them for a specific activity where they can legally participate, is one strategy to ensure having good relationships with law enforcement officers.

Another form of fear of being accused of corruption can be noted when actors are afraid to be blamed for breaking the laws associated with corruption. As an example, in all observed local governments, actors often practice conservative actions when operating in the grey area of corruption law. This "better safe than sorry" mind set is reflected in the following quotes:

> […]We are better not doing things that possible to be judged as a breaking the law action even though it highly contribute to better public service. …For many of us, struggling with blurred definition of corruption thus we avoid some of actions that were considered in the grey area of law. […] (Key personnel of DE at RBK)

> […]We are often confused with a definition of corruption that is totally different with previous standard before the reform. Similar case but different treatment by law enforcement […] (Key personnel of Planning and Development agency at RBK)

### 5.2.20 Fear of losing power

Losing power has been taken into account as one possible impact of the reform. Politicians and managers need to maintain the existence of their influence and interests respectively. Naturally, politicians tend to protect their ability through the new system to influence decisions in budgeting, while managers seem to sustain their interest as every manager might be motivated differently in proposing their budgets. Politicians agree to support empowerment of parliament's role in budgeting; however, they also feel unenthusiastic about of the reformed budgeting system, and feel it is unfair when comparing their capacity, given by rules to managers, in influencing the budget. Examples of these politicians' fears of losing their influence are represented in the following quotes.

> […] As a member of local parliament, we often feel we fail to compete with managers in terms of ability and experience to propose and maintain our interest in the budget…. We only have five years involve in the government budget, as we might not be re-elected. On the other hand, managers have more experience and time to learn how to play the game, since they have been appointed as a government officer […] (Politician of CSM)

> […] We do agree with the reform as democratisation has empowered our role in budgeting. However, the system is too mechanistic and does not change substantially the impact on budget. We need more time to learn the new budget system when we began our role as parliament members[…] (Politician of RBK)

### 5.2.21 Concerning uncertainty environment

There were various uncertainties experienced in budgeting operations; basically regulation-related uncertainty and vertical government allocation-related uncertainty. The budgeting process inevitably needs legitimate regulation to guide the process, as the consequence of its final output or the enacted budget is a law. However, national regulation-related budgeting and accounting were perceived to have dynamic rules as ongoing reform still exists. As result of massive decentralisation, this dynamic national regulation has also been followed by a lack of standardisation related

regulations. There were no national standard cost for formulating budgets of activities or programmes, as was reflected in the following quotes:

> [...] The problem of the reform is dynamic change of regulation. Based on national regulation, we experienced at least two periods of budgeting and accounting reform. We often expected new regulation would be changed soon after enacted and before implemented [...] (Head of Planning and Development agency at RBK)

> [...] To be honest, we confirmed that not al similar activities have the same standard cost. For instance, providing computer was varying among unit and it depend on the chosen specification because the standard only regulates the accepted range of computer specification. Then quality of output and outcome could vary. Achieved performance is difficult to value. This example can also occur in nonphysical programmes such as as training when standardisation difficult to find in national regulation cost. Local standard costings were enacted, often based on the interests of particular groups of actors. [...] (Key Personnel of CFO's Office at RPM)

Another uncertainty in the budgeting processes was fund allocation from vertical government.  Actors perceived more than 75% of the local government budget was received annually from central and provincial government's fund allocation.  This allocation fund can be formed as a national or provincial programme operated in a local area, and also contingency revenue from vertical government as part of the decentralisation fund. The uncertainty is instanced in the following quotes.

> [...] It is difficult to know how much money we will get from the central government in a certain period of budget.  In our case, it depends on how much oil lifting can be reported to central government from oil companies which operate in our area as our dominant decentralisation fund is sharing revenue from natural resources.[...]  (Head of revenue agency of RBK)

> [...] We sometime did not know that there was a national or provincial programme operated in our area if one of our officer did not tell us about it. No proposed plan before and no one can ensure the existence of national or provincial programmes. Allocations from vertical government are sometimes unpredictable. [...] (Head of budget officer at RPM)

### 5.2.22 Difficulties with complexity of performance based budgeting requirement

Difficulties due to complexity regarding requirements of the performance-based budgeting system are represented in the actors' perceptions about struggling to formulate explicit performance measures, difficulties in implementing national regulation or guidance and the efforts of actors for matching allocation with given authority.

Explicit performance measures were formulated in different targeted levels as represented by input, output, and outcome. However, making sense of their relationships to each proposed programme became a struggle for managers and key personnel, as well as politicians.  As a result, there were several types of actions to explain the struggle to formulate explicit performance measures; for example

unwritten performance measures, avoidance having explicit performance, absurd measurement, focusing performance reports merely for internal purpose, and performance for conformity.

Unwritten performance measures and absurd measurement could be identified in the budget proposal document, as set out immediately below.

| Budget Proposal- Education Department of RBK | | |
|---|---|---|
| Name of Activity : "*Improvement of educators' quality*" | | |
| Indicator | Performance Measures | Targeted Performance |
| Program outcome | Increasing human resources of educators | - |
| Input | Amount of fund | 424 million |
| Output | Improvement of quality | 40 person |
| Outcome | Increasing number of competent educators | 100% |
| Detail of budget: ( *calculation of budget* ) | | |

Another struggle to formulate explicit performance measurement can be highlighted in actors' perceptions in formulating a performance measure. Focusing on performance reports for internal purposes and avoidance of having explicit performance target, prepared by members of the executive, were often identified during budget preparation and discussions with politicians. Performance measures were often formulated as conformance purpose with national regulation. These practices were identified both in the previous year's budget with its realisation and budget for the year 2013. Examples of these actions are represented in the following quotes.

> […] To be honest, we prepared performance measure merely for internal purpose then limit to publish it. This was the possible reason why we did not disclose explicit performance measures […] (Finance manager of DE at RBK).

> […] Ministerial decree provided guidance to formulate performance measures that have to be referred ina  proposed budget document namely RKA. We prefer to follow the guidance although sometimes insignificantly contribute to public service but with that conformance many benefits could be obtained. One of the benefits was that, as long as we could clarify our performance measure in line with that regulation, we could convince members of parliament easily […] (Head of budget officer at RPM)

Another difficulty with the requirement of performance-based budgeting was related to the efforts to match budget allocation with given authority and difficulty in implementing national regulation and guidance. Decentralisation has created problems

in sharing authority with the national government. Some shared authority was similar and unclearly defined, resulting in ambiguity. Competing interests between central and local governments' were the possible cause of the ambiguity when central government might not be willing or happy to fully award their authority to local government during the process of decentralisation. On the other hand, local governments seemed unready to receive greater authority from central government. As a result several given authorities were potentially neglected in the actual budget although euphoria for autonomy was stronger than in the previous era.

As result, efforts to match allocation with given authority become difficult matters; when ambiguity exists among given authority, performance measures are not easy to formulate and then allocation often is not matched with performance. The allocations were subjectively decided, based on who dominantly controlled the budgeting operation. These perceptions have been revealed by member of the executive, as represented in the following quotes.

> [...] There were compulsory and optional authorities stated in regulation. Compulsory authority of local government means that budget must be allocated firstly before programmes in the group of optional authorities as this was regulated by national government due to prioritisation reason. In actual budget, prioritisation might be performed differently when local political actors agree to take into account firstly the optional authorities' programmes. Our duty was just to ensure that all obligatory programmes stated by central government, have been allocated with certain of fund as it was compulsory by law [...] ( Head of planning and development agency of RBK)

> [...] Yeah..Performance measure could not be separated with the given authority. In fact, central government often provides incomplete and absurd guidance of performance measurement that was not in line with the given authority to us [...] (Head budget officer of RPM)

### 5.2.23 Unsupported behavioural responses for the change

There were two unsupported behavioural responses for the change that were perceived as effects of the reform implementation. The first was relating to politician behaviour modes and the second was response for the lack of comprehensive reform.

Responses of politicians regarding the change of budgeting system were perceived in several unsupported modes. First, politicians show more concern about the enactment date as regulated in national guidance, rather than focusing on performance measures when conforming to regulations. They often focused on discussion of performance measures only after their political interests had been accommodated in the related budget. Moreover, there were many inconsistencies with performance measures developed in the strategic plan. These responses could be represented in the following quotes.

> [...] To be honest, some of us tried to discuss deeply the performance measure provided by members of the executive as it has been written previously in the strategic plan, however, at the end, many of us were merely concerned on how our political interest have been represented in the budget as that was the reality of our constituents' needs. [...] (Politician of CSM)

> [...] We believe that as long as our budget enactment date conform to national regulation then we are politically safe. We commit to enact the budget on time, although the time of the discussion stage is often inconsistent with the official timetable as budget agreement was never easy[...] (Politician of RPM)

The second unsupportive mode of politicians relates to competing interests between politicians and the influence of dominating partiesy in parliament during negotiations. In the three observed local governments, there have been two different types of competing interests between politicians; these were political group-related interests and managerial-related interests. In RBK and CSM, political group-related competing interests seem more valuable, while managerial interests were more dominant in RPM.

### 5.2.24 **Prioritisation games**

At the level of agency or department, the structure of the expenditure budget has been perceived as a simple tool in prioritising budget allocation. As the first step, the actors in agency often utilise indirect expenditure from the previous year's budget for justifying prioritisation of budget allocation. In this step, they have to allocate a certain amount of money for funding fixed payments in their office, such as salaries and allowances. When this indirect expenditure budget has been set up, they continued to budget direct expenditure that related to their planned activities. They started to allocate funds for the direct expenditure budget, but firstly focused on the compulsory activities of agency to be conducted every year as unavoidable activities. These kind of activities are also termed as activities that must exist in every agency or department of local government.

The dominance of the indirect and unavoidable direct expenditure aspect of a budget is perceived by actors as a consequence of past decisions regarding the existence of an agency or a department, as suggested in the following quote:

> [...]The budget comprises of personnel salary and allowance, and office expenditure such as maintenance of assets, office supplies and bills. We cannot avoid making payment of this kind of expense, as it is a result of past organisational decisions. [...] (Finance manager of DE at RPM)

The perception regarding expenditure budget structure in RBK was quite different with RPM and CSM. Indirect expenditure was more perceived as medium for political negotiation with members of local parliaments. Despite personnel salary and allowance, indirect expenditures allocations including grant and social aid budget are perceived as unavoidable direct expenditure. This expenditure allocation of grant and

social aid were prepared intentionally for politicians' interest to maintain their constituents. In this case, prioritisation games can be reflected in the following quote:

> […]As another nature of government institutions, it is not possible to avoid political interaction in the budgeting process. Indirect budget, for instance: grant and social aid budget is the mean to manage such political interaction as the medium for political negotiation during the budgeting process. […] (Key personnel of planning and development agency at RBK)

### 5.2.25 Playing the game of dominance

Dominance involves a disagreement contest and the game of give and take. These practices were highlighted from discussions with politicians, managers and key personnel involved in budgeting operations.

The disagreement contest begins when politicians have the power to reject the proposed budget, prepared by executives, as the official function of parliament is to legitimise the budget. They often played disagreement games in several noted actions that were conducted with a particular objective based on a specific interest. The game could be intended for intervention, getting an opportunity to influence and as justification tools. For instance, politicians might interfere with a proposed budget from operational managers, before budget discussion, in order to prepare an early scenario to negotiate in a formal meeting. Politicians also often use vertical government policy such as from province government disagreement of previous year's allocation. Another example of the game, politicians practised disagreement to get the opportunity to influence other policies. All of these examples can be represented in the following quotes either noted from politicians' or from executives' perceptions.

> […] Disagreement of politicians does not mean final decision. We could interpret it as they looked for opportunity to influence their targeted policy […] (CFO of CSM)

> […] When we discussed about grant policy, we referred to provincial policy. The policy could accommodate the limitation of standard grant amount that could be given to a non-government organisation. Why executives did not adopt this policy instead of creating their own version […] (Politicians of RBK)

Another power game, as mentioned previously is that of 'give and take'. This game was highlighted through the perceived actions of executives. First, the CFO often creates a buffer of funding during negotiations with parliament, in order to accommodate a late proposal that accommodates the unavoidable interest of parliament. They had experience that was easy to make agreement if the interests of key members of parliament have been accommodated. Therefore, an unrevealed buffer of a fund needs to be prepared such an agreement. Next, at the level of operational manager, the buffer can also be prepared in the form of programmes or buffering an

overhead cost budget such as personnel cost, with intention to accommodate the last change of political interest. In this game, operational managers play a power game, trying to influence allocations within their department. The last, EBTF accommodates politicians' interests for getting approval of certain allocations. All of these game lead up to playing the 'give and take' game during budget discussions with parliament, as instanced in the following quotes.

> [...] We often accommodate politicians' interests in the last minute but it is not coincidentally.  We were ready for it since the beginning [...] (CFO of RBK)

> [...] We used to play with the game of negotiation with them (politicians). Sometimes, to get full agreement, accommodating their proposed budget would definitely accelerate the final agreement [...] (Head of budget officer at RPM)

### 5.2.26 **Dependency on the regulated reform and availability of data**

Successful budgeting reform was perceived by actors as possible only if the new system was supported with reliable data and sufficient guidance in the regulations. Organisational actors perceived that the reform of PBB implementation is triggered by political reform, and they were motivated mainly to conform to the national requirements. As result, they strongly required the availability of regulated requirements and reliable data in implementing the PBB system.

The perception of the reform relates to the motivation of reform. Most actors perceive that they implement the reform, respecting the national requirement, as represented in the following quote.

> [...] Compliance to the national regulation is compulsory instead of optional. Despite the national regulation continuously changing in the last decade; we commit to conform with the regulation as we commit to good governance although we often struggle to follow the regulated changes [...] (CFO of RBK)

This perception of conformity is also reflected in the implementation of the accounting system. Technical accounting reform was developed separately from the performance budget system, because the national regulations for each system were implemented separately. For instance, the accounting standard was firstly published four year after the initial implementation of PBB in 2002.

Organisational actors often excuse partial implementation of PBB as being due to a lack of validity and reliability of past performance data, and unavailable national guidance.  For example, local governments' performance measures were developed mainly based on regulated guidance rather than innovation of measurement. Next, the accrual system was regulated as a voluntary  reform and would become mandatory only after 15 years.

### 5.2.27 **Unstructured approach and legitimacy based control**

The practice of PBB implementation is described by actors as made up of unstructured approaches and the role of control is practised as a mechanism to establish legitimate procedures. These noted practices were highlighted in all three observed local governments.

The verification process of the proposed budget, conducted either by EBTF or LPBB actors, is mostly unstructured. They perform an unstandardised process based on subjectivity of verifications. As an example, several undiscussed programmes were approved in EBTF, although formulated with improper measurement. Such programmes occur because the programmes are directly authorised by the regent or mayor, for certain departments.

In addition, the strained interaction between the formulator and verifier in the process of budget verification, is due to the lack of standardised verification procedures. There was no clear separation guide in the national regulations regarding authority given to each organisational unit or department. Several authorities, given through national regulation, often overlap each other and are unmatched with the local environment. As a result, performance measures cannot be strictly and permanently stated for certain organisational units. For instance, the public health insurance programme was allocated to the general secretary office rather than the department of health, highlighted in the RBK. This allocation to the general secretary's office was discussed quite intensively in the meeting forum of EBTF, just for finding a rationale for the allocation policy instead of inquiring into the proper performance measure of the proposed programmes and activities. The lack of standardised procedures in the process of budget verification is reflected in the following quote.

> [...] I couldn't understand how they justify whether the proposed budget of programmes are correct or not. Every verifier has a different interpretation about the national guidance [...] (Key personnel of DH at RBK)

Unstructured procedures in budget verification contribute directly to the failure of performance measures as a control function. The performance measures of programmes and activities were not utilised properly as instruments of control. Organisational actors concentrated more on the establishment of legitimate procedures, rather than the evaluation of performance achievements. Thus, verification of the proposed budget was focused more on rigid calculation and documents. During budget execution, internal control was performed in order to conform with procedures set out in the national regulations, rather than for monitoring and evaluating performance. The intentions of internal control mainly include the establishment of

procedures for practice that comply with the regulations, and periodic control of cash realisation of budget. The practice of internal control for conformity with the national regulations is reflected in the following quote.

> [...] Although they (actors of central and province governments) require the implementation of the PBB system, their evaluation about local government still relies on performance regarding the cash realisation achievement [...] (CFO of RBK)

In addition, the effort to implement another financial management reform, such as accrual accounting and a national audit mechanism, cannot be separated from the spirit and wish to establish legitimate procedures.

## 5.3  Summary

This chapter has presented a detailed discussion of 27 open coding categories relevant to each category. Open coding is an early coding analysis intended to categorise the data into open categories. This coding analysis mostly involve labelling or naming of events, actions, and situations identified in the budgetary practice of the observed organisations. The discussion of each open categories presented in this chapter are generated purely based on the field data. Most of naming, labelling and explanation of categories are reffered purely on expressions and statements of participants, known as Nvivo data, identified during the interview. These kind of categories could be instanced in the open categories such as harmonising of interests, managing flexibility, reflecting central government's power and practicing old norms in the new budgeting system. Despite NVivo data, the label of open categories are also developed based name of categories or concepts that have been employed by previous researcher. This kind of categories can be represented by the concepts such as decoupling, ritual and ceremonial practice. Other categories such as fear of losing power and mutual distrust between actors were labelled refer to grouping of early open categories which might consist of several Nvivo data. The open categories were obtained from three steps of the open coding process, as presented in appendix III. After the open coding process, the implemented stage of grounded theory data analysis is the axial coding process. The axial coding process is  presented in the next chapter.

# Chapter 6

# Development of Core Categories

## 6.1   Introduction

Core categories are examined in this chapter by discussing connections between open categories, as presented in the last chapter.  First, this chapter provides an explanation of the axial coding process to obtain the core categories that were conducted in this study. In this discussion, the acquired core categories are listed before they are explained in the next section. Subsequently, the discussion presents each core categories (core codes) together with justification of the relationships between open categories that finally form the core categories.

## 6.2   Explanation of the axial coding process

Core codes were identified through the process of axial coding. The process was conducted by starting with an exploration of the relationship between open codes which were acquired in the open coding process.  Core codes were identified by recognising relationships between open codes and making connections between categories (Strauss  and  Corbin, 1990, p.96). The distinction between open coding as presented in the last chapter, and axial coding in this chapter, is artificial and is made only for explanatory purposes (Corbin  and  Strauss, 2008, p.198). Each of these ten codes are subsequently discussed.

    I.     The influence of provincial and central government
    II.    Obtaining conformity for managing public legitimacy
    III.   The harmonising of interests
    IV.    Managing trust relationships
    V.     The presence of distrust
    VI.    Decoupling
    VII.   The existence of fear
    VIII.  Struggle due to complexity
    IX.    Playing the power game
    X.     Utilising procedural compliance for internal control

### 6.2.1   The influence of provincial and central government

This was a category formed from four subcategories: i) reflecting central government's power ii) following norm of province government iii) following national regulations and iv) providing budget provision from vertical organisation.

The power of central government was reflected in the operation of budgeting in all three observed local governments that were perceived as the influence of vertical organisation. The influence of central government could be noted through their fund allocation, regulations and policies. This influence was established to maintain the concept of the unitary state of Indonesia known as "*Negara Kesatuan Republik Indonesia*" (NKRI). The unitary state system has become a national commitment to reject the federal system, since the independence day of Indonesia. Although the value of democratisation and massive decentralisation has been established through political reform, the role of central government was associated with the power to influence local government in order to stay in line with national interests and objectives. The reflection of central government's powers included dependency on funding allocated from central government, commitment to conform with national regulations, and awareness of the importance of national policy.

The central government's powers have impacted on the behaviour of executives actors, as reflected in sub-categories such as following the norms of their provincial government, following national regulations and providing budget provision for vertical organisations. The action of following the province's norms was highlighted as an effort to interpret the national law and regulations published by the central government. The justification for following the province's norms is represented in the following quote.

> […] We may have different interpretations of national regulations that may bring BPK (National Audit Board) to face a non-compliance judgment.  To avoid this judgment, we often follow the norms practiced by provincial actors regarding the interpretation of national laws and regulations […] (Head of budget officer at RPM)

The influence of the central government can be also noticed from the actions constantly following the development of national regulations. The executive actors always synchronise local regulations with national requirements and anticipate yet more dynamic development of regulations. These actions become more demanding when the central government creates new policies and regulations.

In everyday practice, budget provision for vertical government such as sharing funded programmes of central or provincial governments, grants for the police department and the army, inevitably occur during budget allocation. This level of allocation

becomes greater when such vertical organisations show their power or important role to the local governments, that may relate to the improvement of local public services.

### 6.2.2   Obtaining conformity for managing public legitimacy

This was a category formed from three subcategories, which were maintaining a good impression, performing purposive compliance with legalisation, and securing an image from the prejudice of corruption. Maintaining a good impression referred to a top leader's good image and 'honest' political purpose to attract constituents. These include budget allocation such as the prioritised programmes declared during campaign of general election, and politicians' enthusiasm for grant allocation. However, actions for maintaining good public impression should conformed to the national law and regulation as reflected in the following quote.

> [...] I think executive actors would agree that our political interest, such as allocation to maintain our constituents' support, can be accommodated in the budget as long as complying with the regulations [...] (Politician at CSM)

The interests of actors to maintain public support relate to efforts to manage public legitimacy, including performing purposive compliance for legality, and securing an image from any hint of corruption. The more actors' are concerned to manage public legitimacy, the more effort is made to conform to the national requirement.

For instance, most actors are aware of the rewards and punishments regulated by national law, as they often avoid punishment and expect to receive rewards regarding the implementation of the required reforms. In the context of budgeting practice, the actors mostly concentrate on conforming to the enactment date as this might significantly influence the public's impression regarding ability of local government to execute the planned programmes on time. The effort to obtain conformity for managing public legitimacy grows when it was related to the effort to secure an image from from corruption. The actors often perform sagacious self-benefitting transparency exercises, such as publishing only good achievements of conformity and managing the press in various ways. All of this effort was addressed to obtain conformity for managing public legitimacy.

### 6.2.3   The harmonising of interests

This category synthesised four subcategories: practicing old norms in the new budgeting system, managing flexibility, preferring simplicity, and harmonisation of interests. In the context of the study, the harmonising of interests was reflected in the actions including accommodating various interests, bargaining, and negotiation to resolve compromised decisions. To support these interests' harmonisations, actors

always manage flexibility with the help of preferring simplicity of actions and practising old norms in the new budgeting system.

Actions of preferring simplicity include the actions such as considering easiness related to the improvement actions, rather than initiating early reform implementation, if the new approach is considered more complicated, and therefore more difficult to understand, than the old system. The actions also include the preference to obtain the middle way of political agreement, rather than facing any conflict. Moreover, preferring simplicity can be related to the managing flexibility during decision making to support interest harmonisation. This relationship is reflected in the following quote.

> [...] No one can dominate in the budgetary process. Both the allocation and the targeted performance measures can only be determined in certain areas of interest. Flexibility must be needed and then simplicity of the system is chosen to support process of interest harmonisation [...] (CFO of RPM)

For reasons of flexibility and simplicity, the key actors still implement the old norms of budgetary practice in the new budgeting system. Although the budget must have statements of targeted performance, incremental budgeting, and line item allocation, still exist in the everyday practice of budgeting.

### 6.2.4 Managing trust relationships

The managing of trust relationships was a category which synthesised two subcategories: employing emotional-based trust and performing transactional-based trust. Emotional-based trust was managed through leadership charisma and respect for senior actors. Meanwhile, transactional-based trust was performed by such actions as repaying clanship, and allocations based on previous year's performance achievements. These two kinds of trusts can be related to the social environmental backgrounds of organisational actors as reflected in the following quote.

> [...] The most important aspect during interaction between the boss (manager/top leader) and an officer like me is the trust. Without trust form my manager, I will not be chosen as key personnel in the budgetary process [...] (key officer of DU at RBK)

The emotional-based trust was highlighted mostly in the observed local governments located in Java Island. The Javanese culture may influence the actions in managing trust relationship. In the context of budgeting, employing emotional-based trust was highlighted during the process of allocation decision making. In Javanese culture, top leaders' and senior personnels' actions strongly influence the decisions of other organisational actors regarding the topic; in this case the budget. Top leaders or senior personnel are perceived as role models that provide generic examples to guide decisions among alternatives. Meanwhile, performing transactional-based trust was

noted as being more common in non-Javanese local government. The most common actions in everyday practice of budgeting are repaying clanship through the involvement of actors in budget decision making, who contributed to the particular achievement of powerful executive actors in the past. For instance, organisational actors who are appointed as the key personnel, and are therefore powerful in budgetary process, are often the individuals who have, in the past, made contributions to the election process of the top leader.

### 6.2.5 **The presence of distrust**

This category originally involved two subcategories: distrust of the current environment and mutual distrust between actors. Both subcategories referred to the organisational actors' interpretations regarding the required reforms mandated by central government.

The multiple interpretations of actors about the required reforms create different expectations and interests among organisational actors. This situation is represented in the following quote.

> [...] As a head of department, I have to ensure that targeted performance mandated by local and national regulations can be achieved following the milestone of the strategic plan. But, this is an impossible target if the CFO always provides insufficient allocation every year [...] (Head of DE at CSM)

Despite mutual distrust, the interpretation of actors also generates distrust of the current environment. For instance, organisational actors commonly believe that nobody can ensure the fairness of procurement practice, and budgeting is perceived as a separate system to accounting. Mutual and environmental distrust  both greatly contribute to the presence of distrust in the organisational field.

### 6.2.6 **Decoupling**

Decoupling was a category made up from three subcategories: improvements resulting from reform implementation, the disconnect between required reform and practice, and ritual and ceremonial practice in reform implementation. This category borrows the neo institutional perspective of Meyer and Rowan (1977) who explained that the adoption of new rules or systems could be decoupled from the on-going routines. The concept of decoupling is similar to the disconnection between required reform and practices. For instance, the planned performance measures are disconnected from the strategic plan, performance measures are mostly based on absorption rates of budget realisation, instead of performance measurement. The disconnection between required reforms and practices relate to ritual and ceremonial practice in the reform implementation and the existing improvements resulting from the reform.

The first reason of why and how decoupling occurs is related to the ritual and ceremonial practice in reform implementation. The decoupling occurs due to organisational actors mostly concentrating on ritual practice, instead of focusing more on the development of proper performance measurements. This ritual practice includes agreeing to disagree over budget policy, temporary agreement about budget policy and short-term oriented  performance measures. In addition, the way to practice ritualistic PBB system, thereby causing decoupling, is supported through symbolic performance measurements and ceremonial for the sake of apparent conformity. For instance, achievement of a strategic plan that can be negotiated, represents the practice of symbolic performance measurement. While, ceremonial practice can be instanced with the practice that is greatly concerned with the need to comply with the enactment date. All of these symbolic and ceremonial practices relate to actors' concerns over legitimacy regarding national regulations, as reflected in the following quote.

> [...]Basically, I always attempt to conform our budget document to MoHA regulations which are yearly issued as guidance for local governments' budgeting practice …. Our local government's compliance will be evaluated by the provincial government before the budget is officially enacted. [...] (Key personnel of planning and development agency at RBK)

The nature of improvement resulting from the reform also represents justification and explanation of how the decoupling occurs.  PBB implementation has created organisational actors' awareness regarding concern over external monitoring, awareness for increasing transparency, and public empowerment through budgeting. Therefore, good organisational images, as perceived by the public, become important considerations during reform implementation. Decoupling arises when organisational actors commit to the reform, while also striving to maintain a good image, as reflected in the following quote.

> [...] I believe that without good impression from public then the execution of the budget will have less meaning for organisational actors, although the performance measures are developed properly [...]  (CFO of CSM)

In short, decoupling was highlighted as result of ritual practice, awareness of organisastional actors becoming overly concerned about external monitoring, transparency and public empowerment. Decoupling was performed through legitimate budgetary practice and good image creation of organisations.

### 6.2.7  The existence of fear

The category of fear existence was self-reflection of those actors engaged in the implementation of reform requirements. This involved two sub categories: fear of

being suspected and / or accused of corruption and fear of losing power. The first subcategory referred to the actors' behaviour, fearing they will be blamed for breaking the law associated with corruption. Therefore, organisational actors often make big efforts to manage external monitoring pressures such as the press, and non-government organisations. Despite actively attempting to get unqualified opinions from the national audit board, they also provide allocations to manage the press and give indirect privileges to law enforcement officers. Meanwhile, the second subcategory reflected various self-interests associated with the actors' motives and the politicians' fear of losing their influence. Executive actors and politicians have multiple interests that cannot be accommodated if the new system is fully implemented. Moreover, politicians might not support the reform if the new system limits their ability to influence the budget, compared to the role of executive actors in budgeting.

Both subcategories of budgetary practice, mentioned above, reflect the existence of fear resulting from the reform implementation. Fear to be accused of corruption contributes more to the fear of organisational actors, compared to the fear of losing power as reflected in the following quotes.

> [...] After several actors were arrested for a bribery case in budgetary agreement, most actors both executive and legislators are more strict in budgetary reform, such as conforming with the budget enactment date, and consistency with the strategic plan [...] (Politician of CSM)

> [...] I prefer to be fired or demoted from my current position if my boss ask me to execute budget that has the potential for me to be accused as a subject of corruption [...] (Key Personnel of DH at CSM)

### 6.2.8 Struggle due to complexity

This category was synthesised from two related subcategories: difficulty with complexity of performance-based budgeting requirements, and unsupported behavioural response to the change. The first subcategory was reflected in actors' perceptions of the process of budget verification, while the second subcategory relates to the problem of a lack of competent personnel.

Most actors in all of the observed organisations revealed that the new system of performance-based budgeting seemed to be complex. Developing the performance-based budgeting system in an organisation needs a comprehensive approach relating to the development of other systems within the organisation. The perceptions of difficulties with budget verification are represented in a quote.

> [...] I would say that this system (performance based budgeting) is more complex than the previous system. I cannot just put some funds in activities that are commonly conducted. I have to prepare it with rational justification such how it relates to our objectives. [...] (Head of planning and development agency at CSM)

The difficulties in budget verification have also been perceived as the result of several problems that occur; such problems relate to the given authority for local government, lack of competent personnel and strained interactions in verification of the proposed budget. The authority of local government is perceived as the cause of why difficulties in budget verification occured in all three of the observed organisations. Previously, the traditional system of central government guided all local governments' activities, with no need to interpret the given authority from central government. With the reformed system, local governments always need to take into account every proposed activity with the list of given authority. Actors perceive the given authorities from central government are unclear, overlapping, and sometimes unmatched with the local environment, as suggested in the following quote.

> [...] Mmmmm...I am not trying to blame the system. But, ...in fact, some of given authority, as regulated in Government Regulation No 38 / 2007 about distribution of authority between central government and local government, are quite unclear. The national law only regulate the norm of affair distribution without any clear differences of listed authority between central government and local government. As a consequence, we have to interpret properly that regulation when we have to verify eligibility of proposed activities in budgeting. [...] (Head of planning and development agency at CSM)

Despite the phenomenon of confusing complexity also being identified in CSM and RPM, actors of RBK also revealed specific problems regarding the verification process of the proposed budget that were perceived as more due to a lack of competent personnel and strained interactions in budget verification, as evidenced in the following quote.

> [...]So, Indeed, there was unlinking between our job description and real task...Due to lack of personnel both in term of competence and number of personnel. We do also budgeting task although we are planning officers because it has been asked by financial officer as they have problem with required competency ...Then, this task continued until now.[...](Finance manager of DH at RBK)

### 6.2.9 **Playing the power game**

Playing a game of power is a category which synthesised two subcategories: the game of prioritisation and playing dominance. The former referred to the practice of expenditure prioritisation and the importance of certain expenditure types as compared to the other. While, the latter related to the practice of joining a disagreement contest and the game of give and take.

Prioritisation of certain types of expenditure reflect the game playing indulged in by executive actors. With this prioritisation game, executive actors can create hidden allowances by allocating a significant amount in the account of indirect expenditure. Despite hidden allowances, prioritisation of expenditure also referred to the

importance of certain expenditure that may arise as a consequence of past decisions committed to pay each year and commitment to support national sharing programmes executed in the local area. Through both prioritisation games, executive actors could manage the playing of dominance with legislators, as reflected in the following quote.

> [...] Allocation for indirect expenditure in the early allocation can help us to limit politicians' demands about direct allocation for their constituents [...] (Head of budget officer of RPM)

Meanwhile, playing the game of dominance includes actions relating to a disagreement contest and the game of give and take. Both executive actors and legislators play the dominance game, as each group of actors holds power to influence their counterparts. For instance, legislators could reject the proposed budget prepared by the executive, whilst the right to formulate the budget is only given to executive actors.

### 6.2.10 Utilising procedural compliance for internal control

This category originally involved two subcategories. The first relates to dependence on regulated reform and data availability, and the second relates to an unstructured approach in budget verification and legitimacy-based control.

Organisational actors of all three observed local governments reveal that effectiveness of PBB implementation strongly depended on data availability; as well as the the validity and reliability of the data. The lack of data availability, such as information about past performance and accounting data, negatively affects the way organisational actors can, or try to, verify the proposed budget. An unstructured approach in budget verification was the product of insufficient past performance information. As a result, subjectivity and unstandardised mechanisms can be noted in the process of internal control, such as budget verification.

In addition, the other practices of internal control demonstrate similar intention and motivation with the budget verification process. Subjectivity of organisational actors is mostly intended to ensure that the employed procedures comply with the regulations. This also relates to the motivation caused by the reform, perceived by organisational actors, that conforming to national requirements is much more important than the development of proper performance measurements. The relationship between subjectivity of organisational actors in the process of internal control, and efforts to achieve conformity with the procedures legitimated in the regulations, can be represented in the followong quote.

> [...] I am not sure how they (EBTF) decide which proposed activities are good and which are not good..The discussion of proposed activities mostly focuses on the compliance with the existing regulations [...] (Key personnel of DH at CSM)

## 6.3 Summary

This chapter presents the discussion of the axial coding process intended to develop core categories. The discussion demonstrated how the open categories were connected and merge into the core categories. The core categories represent groups of open categories that have relationships identified from their dimension and subcategories in explaining the phenomena.. This axial coding analysis was conducted through regrouping the emergent open categories into new categories known as core categories. During the axial coding process, the relationships among open categories were explored through the question why and how open categories representing actions, incidents or events occur. Explanations of the 10 core categories resulting from the axial coding process are developed from the relation analysis between the 27 open categories discussed in the previous chapter. Further, the core categories were examined through the help of Straussian paradigm explained and discussed in the chapter 7. The aim of the chapter 7 is to provide an explanation of the integration all of core categories related to the central phenomenon, by identifying categories related to its conditions, interactions/actions and consequences.

# Chapter 7

# Substantive Grounded Theory

## 7.1 Introduction

This chapter presents process of selective coding that resulted in identifying the central phenomenon of this grounded theory research. The selective coding process began with a focal core code that was selected from among emerging core codes, through the axial coding process discussed in the last chapter. The selective process is known as a grounded theory paradigm, through the grouping of core codes based on their relationships, as prescribed by Corbin and Strauss (2008). Next, section 7.2 discusses the development of substantive grounded theory from the grounded theory paradigm. Section 7.3 therefore presents a discussion of the central phenomenon of this study, as a focal code; that is managing the harmonising of interests. Section 7.4 explains the actors' responses, known as strategies, which are related to the central phenomenon. This section is subsequently followed by sections 7.5 and 7.6 that present causal conditions and outcomes respectively. Finally, sections 7.7 and 7.8 review all of these discussions by presenting a framework of the theory and summary respectively.

## 7.2 Overview of the process to develop substantive grounded theory

Substantive grounded theory is a theory which emerges from data. The theory was formulated inductively in this research, through a set of coding procedures, as explained in previous chapters. As the final stage of coding, a focal core code was selected among the core codes acquired in axial coding. This stage of coding is known as selective coding.

Selective coding was conducted by articulating axial codes through a set of questions that can be applied to data in order to explore contextual factors, and identify relationships between context and process. This set of analysis was intended to identify relationships between each core category and determine a central phenomenon. Analysis in this stage employed a paradigm perspective that focused on identification of a central phenomenon and then its conditional categories, strategies and outcome (Corbin and Strauss, 2008).

A central phenomenon was determined from a core category that has many relations with other core categories, and dominantly occurs during observation in the field. In this study, managing the harmonising of interest was a focal core code that becomes a main theme of the research. Strauss and Corbin (1998) observed that, to determine focal core category, might involve a process, dimension, condition, consequences or theoretical code which could be identified either from existing categories or new categories. In this study, a focal core code was selected from existing categories that was the most frequently connected to other categories. Managing the harmonising of interests was determined, as central phenomenon, from core categories which have been obtained previously via the axial coding process. The central phenomenon; that is managing the harmonisation of interest, was portrayed as the practice of budgeting reform in Indonesian local government. Explanations of this central phenomenon have been prepared taking into account its conditions, strategies and outcome or consequences, as these entire elements are known as paradigms in Strausian grounded theory.

Causal conditions that were seen in groups of core categories, which have been selected as responses to the questions about what, why, where, and how central phenomenon exist when it comes to the practice of budgeting and accounting reform in Indonesian local government. Strauss and Corbin (1998) contend conditions can be causal conditions, contextual conditions and intervening conditions. In this study, causal conditions occurred to explain how a central phenomenon exists. The causal conditions are the existence of fear, the presence of distrust and struggling due to complexity. These causal conditions directly impact the occurrence of central phenomenon. In addition, the research also highlights the influence of central and province government as contextual conditions of the central phenomenon. The contextual condition relates to the specific characteristic of the Indonesia local governments budgeting reform that indirectly affect on central phenomenon.

The next element of paradigm relates to the strategies of central phenomenon. For this study, the routine tactics of actors or groups to harmonise with interests during implementation of reforms were taken into account as strategies. These included obtaining conformity for managing public legitimacy, managing trust relationships, the exercising of power, and utilising procedural compliance in internal control. All of these strategies generated an outcome that was the existence of decoupling between rule and routine. This outcome is the last paradigm element in the Straussian Grounded Theory model that depicted the downstream of the central phenomenon.

The subsequent sections present each paradigm element of this study. The discussions begin with the central phenomenon and which is then followed by strategies, conditions, and outcome. The final section provides a framework to summarise all of the discussions about core categories.

## 7.3 The central phenomenon: managing the harmonising of interests

This study investigated the particular ways of actors in implementing budgetary reform at the Indonesian local government level, in which actors actively attempt to harmonise their various interests. The practice of the organisational actors' commitment to implement the required reforms, conducted through the executive actors' preferred ways, emphasising compatibility with the existence of various interests, was labelled as "managing the harmonising of interests". In this context of the study, executive actors, as the main actors of the change, managed harmonisation through a set of implementations to maintain organisational stability by performing the reforms in a way that is consistent with the complexity of stakeholders' interests.

Despite various personal interests, interests of groups inevitably exist between executives and legislators. Politicians play their role as the public representation in controlling executives' actions and focussing more on political interests, whilst the executives are more concerned about managerial interests in providing public service through the budgetary process. The actors' ways in implementing the reform obviously considered this complexity of interests. This includes the ways formulating performance measures, and initial allocation of planned activities, were observed since budget policy determination. Therefore, the actors' ways of implementing the performance of budget reforms should take into account the process of interest harmonisation and *vice versa*. Managing the harmonising of interests is a term utilised to represent this emerging phenomenon in this study.

As has been discussed previously, the central phenomenon, managing the harmonising of interests, consists of two actions. First of all, the phenomenon is assisted by how the executives implement the reforms. Despite coercive and evolutionary adoption of national rules, actors or groups have practiced preferred ways in implementing those reforms. In all observed local governments, the implementation of change by actors is relatively similar; informed by old norms in the new budgeting system, managing flexibility during budgeting and preferring comfortable conditions. All of these first actions are labelled as aspects of 'the reform implementation' to be explained in more detail in further sections.

Secondly, at the same time, actors or groups attempt to harmonise their various interests through a set of noted budgetary activities. This effort was highlighted in the interaction between executives and members of parliament. Differences and competing interests, the latter being more frequent, between politicians and executives during policy development are synchronised to maintain organisational consensus. They prefer to compromise, rather than to challenge each other. In this process of interest harmonisation, actors or groups attempt to accommodate, bargain, negotiate the interests of their counterparts and finally make decision in the formal meeting as a legitimate forum.

To illustrate the central phenomenon of managing the harmonising of interests, the following figure 7.1 presents' two interrelated groups of actions; the reform implementation and the process of interest harmonisation.

Figure 7. 1 Managing the harmonizing of interests



**The reform implementation**

**The process of interest harmonization**
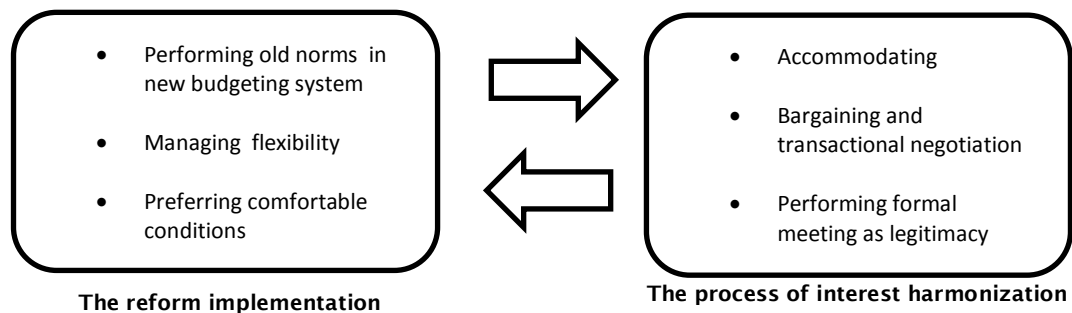
Managing the harmonising of interests emerged as a reaction to conditions that relate to actors' perception in interpreting the influence of central and provincial government. Managing the harmonising of interests was the selected approach that was considered able to maintain organisational stability in implementing the reform. In this context, stability means that various interests can be harmonised while also committed to the reform implementation.

Managing the harmonising of interests generates four types or classes of actors' responses, herein known as strategies, which were observed after their attempts at trying to determine budget policies. Firstly, actors or groups attempted to obtain conformity for managing public legitimacy, which is intended to establish, maintain and present an acceptable public impression. Secondly, actors or groups actively maintain trust relationship in the managerial structure in order to manage coordination of and for the reform implementation. Thirdly, internal control is established based on procedural compliance, instead of targeted actors' performance achievements, in order to comply with regulations. Finally, playing power games is also a strategy to create

consensus between actors, as each actors' group has their own interests and power to influence. The aforementioned strategies resulted in budgetary practices which decoupled from the rules.

In a short, executive actors implemented reform while they should be managing various interests between actors. Executive actors initially employ the selected approach in implementing the required reforms to anticipate and manage the existence of various interests. Subsequently, politicians and executives intensively interact to harmonise their interests in order to establish budget policy agreement as guidance for the relevant government departments. Then executives, as agents of change, reproduce their actions through the three preferred ways of reform implementation in further stages of budgeting, when interests have been harmonised in order to maintain organisational stability. Without concern focusing on this interest in harmonisation, reform might be difficult to perform continuously, as conflicts of interests between actors or groups might interrupt not only the reform implementation but also the budgetary process. The following sections discuss more details of these two elements of the central phenomenon "managing the harmonising of interests"

### 7.3.1   The reform implementation

As agents of the change, members of executives played their role to manage the change more actively, compared to the roles of the politicians. Reform implementation was more initiated by executives through their preferred ways, which were based on their interpretation on national rules. However, the way to implement reform should be via a process of interest harmonisation, through a budgetary policy established together with parliament. The harmonisation of interests is a sequential process that leads different interests become merged in aid of policy decision making. Hence, how actors or groups implement the reform was also determined by the process of harmonising interests. The implementation ways of executive's actors comprise performing to, and being informed by, old norms in a new budgeting system, managing flexibility and preferring comfortable conditions.

Firstly, performing old norms in attempting the implementation of a new budgeting system was noted primarily during the formulation of budgetary policy prepared by executives for legislators. The noted old norms include an incremental approach, line-item- based allocation, short term orientation of planning, and the previous years' performance evaluation based on cash realisation. The incremental model involves preparing current allocations by adding certain proportions of the previous year's budget. This practice was often accompanied by line- item allocation, with a budget based on economic accounting instead of planned performances.  Next, short term orientation can be noticed when performance measures are prepared only for a one

year horizon, and are often not linier with measures targeted in strategic planning. Finally, the old norms practice was also highlighted when performance measurement mostly focused on the cash realisation of budget execution. Despite the existence of old norms, actors or groups were committed to provide performance measures in each budget allocation, as reflected in the forms and procedures of the new budgeting system. The actors or groups employ such measures mostly in the budget documents but rarely in the process of monitoring and evaluation.

Actors, or groups of executives, utilise the old norms in order to maintain opportunity to harmonise their interests with politicians. Members of parliament experience difficulty in following updated regulations regarding budgeting reform, which are published by the central government. Hence, there was a gap of knowledge about the reforms between executive and legislative actors in implementing those reforms. Using old norms can help executive actors to more easily explain the required reforms during the process of interest harmonisation. For example, early allocation for departments, formulated in proposed budget policy for legislative bodies, were mostly based on incremental amount of the previous year's allocation and therefore budgeted in repetitive activities or programmes. Using this approach, executive actors in all observed organisations can provide explanations about the new format of the proposed budget, as compared with old system; a conclusion which is reflected in following quote:

> [...] In the allocation process at the stage of KUA (budget policy) formulation, what we can do is just add incrementally the amount from the previous years' budget and try to match the allocation with legitimated performance measures guided by central government. This approach helps us for discussion with parliaments. Politicians easily understand if we provide a proposed budget with old norms. Hence, justification of the allocation can utilise previous years' arguments with little adjustment if needed [...] (Key personnel of CFO's office at RPM)

Although they commit to implement the required reform, executives' actors develop an effective way for negotiation with legislative actors. This technique, it can be noted, is similar in practice to all three observed local governments, as instanced in the following quote:

> [...] As members of EBTF (executive budgeting task force), we surely know that politicians' interests mostly relate to allocation (for budget) of grants and social aid. As long as they can ensure this budget is acceptable for their constituents then usually agreement of KUA can be done more easily, although we provide less information about targeted performance[...] (Observational notes, head of budget officer at RBK)

When KUA (budget policy) was officially agreed, most interests between executives and legislators have been initially harmonised. Actors or groups of executives continue to operationalise budget policy in each planned programme of the government's departments. Ritualistic top down allocation of organisational units often accompany the implementation of performance- based budgeting, as a result of limited resources, although the system was theoretically established based on money following function. This can be instanced in following quote:

> [...] If no ceiling from the beginning, I believe all units will propose as many as they want. Therefore, top down allocation is the best way to manage resource limitation as actors cannot propose budget for more than the agreed amount stated in budget policy. Actors of departments should rationalise their budget activities or programmes adjusted with allocation referring to the budget policy [...] (Key personnel of CFO's office of CSM)

Although an incremental approach and input- based budgeting were still to be found in the process, actors start to prepare complete performance measures for each allocated fund for programmes or activities, after interests have been harmonised, during budget policy operationalisation. They played matching the puzzle of input- based allocation with performance measures during implementation of the new system. Linking allocated amounts of programmes and their targeted performance measures, was based on consensus and unsystematic calculations, without referring to certain standards.

In the stage of budget execution, the actors greatly relied on traditional measurements, which mostly meant monitoring the cash realisation of each department. The example of performing old norms in stages of budget execution can be noted in the following quote:

> [...] Until this day, performance measurements dominantly rely on budget absorption rate (percentage of realisation to total amount of budget). Politicians and internal control officers are rarely concerned with the achievement of targeted performance measures. As long as agencies have good absorption rates, they almost never have problems with performance achievement evaluation [...] (Key personnel of DH at RBK)

Secondly, managing flexibility was another concept to illustrate actors' preferences to deal with implementation of the reform. The efforts to maintain flexibility of budgeting was highlighted in all observed local governments, relative to the process of budget policy formulation.  There are a number of similarities to ways of maintaining flexibility observed in three local governments.  Flexibility was highlighted in the process of fund allocation, and formulating targeted performance measures, prepared by executive's actors, before harmonising interest in the process of budget policy agreement. First, actors prepare budget policy, via an elasticity strategy, by using hidden allowances in order to fund unplanned programmes, as instanced in the following quotes:

> [...] To be honest, we often develop hidden allowances to anticipate last minute proposals that are impossible to reject. I know this since my boss gives me an order to do such strategy before discussing the proposed budget policy with parliament [...] (Key personnel of CFO office at RPM)

> [...] We never worry with last minute proposals that cannot be rejected. We have big amount of SILPA (previous year's balance) to cover the unplanned programmes [...] (Key personnel of CFO office at RBK)

Similarity of managing flexibility, as observed in the three local governments, can be noted in formulating performance measures, which often employ qualitative statements. Actors or groups manage various and different interests by preparing elastic performance measures to anticipate the changes of a proposed budget, as represented in the following quote:

> [...] I often identify that they formulate performance measures using qualitative manners without targeted numbers, such as the words: increasing, developing, empowering or reducing something. Usually, programmes with these measures were sometimes employed by executives in order to manage unexpected changes. As long as the changes still match with the stated measures, they do not need to allocate additional funds [...] (Politicians of CSM)

These actions of managing flexibility were continued with different objective after interests have been harmonised in budget policy agreements.  In the further stage of budget policy operationalisation, flexibility was prepared mostly to anticipate additional fiscal capacity that came from central government funding. Initial prediction of local government targeted revenue, acquired from the sharing of national income, might change after the date of the budget enactment. As a consequence, the expenditure budget must be adjusted to synchronise if there is a change of fiscal capacity. Flexibility to anticipate this change should be managed properly by the executive's actors. Local governments, which depend highly on national shared income, might prefer to manage their budget revision earlier than the less dependent. Executive's actors were divided between a budget being enacted permanently and one that will be revised in the future, only after the budget was enacted. As regulated in the national rules, budget revision is allowed during the period of budget execution that must be conducted and approved by parliament three months before the end of the fiscal year or by 31st December.

Despite similarities, there are a number of important differences regarding managing flexibility among the three observed local governments, after budget policy determination. RBK tends to make a bigger effort in managing flexibility than the CSM and RPM.  Uncertainty regarding the change of estimated fiscal capacity is bigger than other observed organisations due to the dependency of the RBK on the national sharing income sourced from natural resources. Hence, RBK experience the greatest struggle to comply with the required enactment date stipulated by national regulation.

The more the uncertainty occurs then the more flexibility effort will be made, resulting in difficulty to comply with the required budgeting schedule, as represented in the following quote.

> [...] I think our local government cannot be compared with the others in terms of budgeting schedule compliance. Fund allocation from central government is obtained from natural resources sharing income. This cannot be predicted easily and this contributes more than 90% of our income. We anticipate the change only with great difficulty [...] (Observational note, CFO Officer at RBK)

Still in managing flexibility, RPM is different from CSM in the way it manages flexibility. Despite both organisations being more concerned about utilisation of quantitative measures in their proposed budget, CSM tends to have a better approach to departmental efforts in managing flexibility than RPM. Managing flexibility must be centralised instead of decentralised at department level. Hidden allowance can only be prepared by the EBTF as the coordinator of budgeting; this is reflected in the following quote.

> [...] We have been restricted regarding allocation of certain expenditure by EBTF (Budgeting task force of executive) since budget policy determination. The form of restriction is in the form of amount limitation instead of percentage. To be honest, we cannot create allowance to anticipate the change [...] (Finance manager of DH at CSM)

On the other hand, the RPM are more likely to provide opportunities for departments in managing flexibility than CSM. Actors of departments can create hidden allowances to anticipate any unplanned change of activities inside departments as represented in the following quote.

> [...] We usually anticipate the changes by preparing certain allocation that is elastic for unplanned activities such as supporting funds to run central government programmes which have not been anticipated previously. We can put it either in indirect or in direct expenditure [...] (Observatory note of DH manager at RPM)

As a result, local governments that strictly conformed to the centralised flexibility management model, such as CSM, were relatively able to follow the required schedule in every step of the budgeting process. On the other hand, local governments that give opportunity to departments to manage flexibility, such as RPM, tend to have greater complexity to manage, although they could comply with the required enactment date but not with the schedule of every budgeting step.

Thirdly, preferring comfortable conditions was also another concept highlighted, as the preferred way of actors in implementing the reforms. This concept was investigated during the budgeting process before and after budget policy agreement. Although the budgeting reform has been implemented for more than a decade, actors prefer attempts to implement the reform that take into account easiness and feelings of safety selected from alternatives' actions that are allowed or legitimated in reformed legislation. Actors may avoid difficult approaches although these contribute many benefits, such as utilising standard spending assessment, quantitative performance

measurement, and accrual accounting which are suggested in the reform requirements. Feelings of safety relate to constructing organisational stability that means avoiding difficulties and maintaining continuity of implementation of the new system. This was considered by organisational actors as they are not only able to conform to the required reform but are also eager to manage the complexity of interests during the reform. Illustration of preferring comfortable conditions can be represented in the following quote.

> [...] To be honest, we don't choose the best approach from alternatives required in the ministerial decree. Despite accrual accounting being highly recommended in the regulation we prefer the cash system. Our human resources, involved in the financial management process, are not ready with accrual system. Then, we believe the cash system is the most rational approach that is compatible with our current environment. [...] (Key personnel in CFO office of RPM)

Another feeling of safety was a tendency to make decisions based on the middle way of political agreement. During budget decision making, stability was reflected either within agency/department or local government organisations. Unlike in agencies, the motive of actors or groups at the local government level was to avoid continuous conflict of interests during implementation of reforms with regard to ensuring certainty in the policy making process. However, inside agencies demonstrated motives relating to the interests of staff which contrasted with the others; thus the middle way of agreement was mostly conducted to deal with personal risk.

At the agency level, the reasons to play safety decisions were mostly to secure them from the potential risk of being suspected of corruption and having sustained losses with regard to personal allowances or incomes. These reasons are reflected in the following quote.

> [...]Despite I personally helped to write the "problematic" programme (grey area related law violation) in the proposed budget and it has been accommodated and enacted in parliament, I will never help to execute such a budget that potentially breaks the criminal law, as execution of the allocation might be considered as source of state financial fraud and prejudice of corruption. To be honest, I prefer to be fired or moved to another agency if my boss forces me to do it. [...] (Key personnel of DE at RPM)

At higher levels of interaction or at the local government level, there were two types of interaction for harmonisation of interests: agency versus EBTF, and EBTF versus politicians in parliament. In this context, a feeling of safety was perceived as a product of bargaining and transactional negotiation, as actors or groups actively looked for the middle way of agreement. This middle way of agreement was representative of the way to harmonise interests, as reflected in following quotes.

> [...] In our case, we have planned to build additional buildings of our general hospital, provided with all supporting facilities in 2013 in order to upgrade capacity of the public hospital. EBTF was agreeing with that annual plan as it has been justified in the strategic plan. But, members of parliament did not agree if the new facilities were not prepared for the poor. To accommodate, EBTF changed the plan by preparing 50% of new facilities for the poor and 50% for first class facilities in order to get parliament's approval [...] (Head of DH atf CSM)

> [...] As long as for real public service improvement, it was a common practice in the parliament that we follow majority opinion as solution for parliamentary agreement [...] (Politician of RPM)

As explained previously, actors or groups of executives initiated the implementation of performance based budgeting through a set of their preferred ways. In a period of pre-determined interest harmonisation, actors or groups of executives have habitually anticipated occurrence of various interests, mostly between executives and legislators, which might interfere with the implementation of required reforms. The executive actors perceived that the process of interest harmonisation, which inevitably occurs in the budgetary process, is the nature of the political process in budgetary practice. The following section explains how interests are harmonised in all observed organisations.

### 7.3.2  Process of interest harmonisation

As discussed previously, interest harmonisation is the nature of budgetary practice in the context of Indonesia local governments.  In this study, how interest harmonisation has been performed in all observed local governments was noted as a process of sequential steps. The process starts with the accommodating stage, when executive actors gather all the various interests in order for them to be harmonised. Executive actors compile the entire proposed budget, either driven by their internal interests or from politicians' interests.  Next, executive and legislative actors develop their consensus through the process of bargaining and negotiation. Finally, the process will be completed by holding a formal meeting as a legitimising forum. The following discussions are addressed to explain each sequential stage of interest harmonisation as investigated in all observed organisations. The effect of the interest harmonisation process is also discussed in this section.

Accommodation is a process where various interests are gathered and pooled in "one container" in order to obtain an early understanding of various interests between actors reflected in the proposed budget of each department.  There are two approaches to accommodating: 1) for making a temporary agreement and 2) preparing a relatively permanent agreement. The former can be noted in the case of RBK and RPM, whilst the latter can be highlighted in the case of CSM, as explained in the following discussion.

The way to accommodate interests of CSM is quite different from those of RBK and RPM. Executive actors of CSM gathered various interests, reflected in their budget proposal, in order to set up a permanent agreement of budget policy with the legislature. On the other hand, unlike CSM, actors of RBK and RPM prefer to prepare a temporary agreement. Therefore, actors of the CSM are initially concerned with the most important interests coming from the most important actors, such as top leaders, influential managers and very powerful politicians. The budgeting task force, namely the EBTF, tries to ensure that most important interests have been accommodated in the budget policy agreement in order to create a permanent agreement, as reflected in the following quote.

> […] We try to accommodate main interests of top leader and politicians as early as possible by ensuring their proposed programmes or activities (are) in the KUA and PPAS. We do not accept additional proposals after the agreement was made, even from top leaders. Then, we can scrutinise the budget with more focus on the fairness of budget allocation and performance measures […] (Key personnel of planning and development agency at CSM)

In this process accommodating also means making an agreement, but only if the main interests have already been put in the shopping basket. Budget policy, termed as KUA and PPAS, has been prepared to settle a permanent agreement without consideration for future modification.

Another way of accommodating interests is by preparing a temporary agreement of budget policy which can be revised during discussions associated with budget scrutinisation in parliament and before the budget's enactment. Politicians and executives settled budget policies in the form of a temporary agreement adjusted to accommodate new budget proposals or a change of budget policy. In cases such as RBK and RPM, there was no strong commitment to ensure consistency between initial agreements of annual budget policy with the proposed budget, as reflected in the following quotes.

> […]It is a common practice for us to prepare a signed agreement of budget policy (namely "*KUA dan PPAS*") with parliament but then change it during the next process of proposing the budget. To be honest, the agreement of KUA and PPAS was accomplished mainly to ensure conformity with the schedule required in the national regulation. We probably find it difficult to stop new proposals until budget was enacted as local regulation. […] (CFO of RBK)

> […] We make KUA and PPAS of year budget 2013 as an agreement conducted two times. The final agreement was an adjustment of initial KUA and PPA agreements to the latest proposed budget, which have accommodated most interests of politicians. […] (Head of budget officer of RPM)

There are a number of similarities between the cases of CSM and RPM, in terms of the accommodation process. The way of actors accommodating within CSM and RPM were performed more likely in a systematic way than in the way of actors in RBK. Formal processes are more dominant during the process of budget proposal accommodation that leads actors of CSM and RPM to systematically propose their departmental budget during the bottom-up process. A strategic planning document was employed by the budgeting task force to filter the proposed budget in order initially to limit the various emerging interests. In this approach, actors of departments utilise strategic plans as primary references to justify their proposed budget.

Besides accommodation, the subsequent process of interest harmonisation involves bargaining and transactional negotiations. Bargaining was generally part of negotiation but is particularly different from transactional negotiation. Organisational actors conducted bargaining actions when they perceived that their counterparts or other actors were holding more power to influence, or vice versa. Bargaining can be instanced by the relation between the EBTF and actors of departments, when proposed budgets have been accommodated previously. EBTF definitely has more power to influence decision of departments' actors, as reflected in the following quote.

> […] As a member of EBTF (executive budgeting task force), we could ask the organisational unit to throw away or to propose new programmes before discussing budget with parliament […] (Head of planning and development agency of CSM)

In contrast, actors of departments often request EBTF to permit additional allocations when they have a direct mandate from powerful actors, such as executive leaders or very powerful politicians. The request cannot be ignored by EBTF, even though a draft budget policy has already been prepared to deliver to parliament.

Unlike bargaining, organisational actors employ transactional negotiations when they perceive they can have equal power to influence the others. In this context, give and take actions were noted as negotiations in the area of fund allocation, and formulating targeted performance measures. As an example, interactions between EBTF and parliament for fund allocation agreement often utilise the give and take approach, as reflected in the following quote.

> […] When you need parliamentary approval, for instance in the budget of 2013, that is the proposal for improvement of staff allowance, we negotiate with members of parliament through accommodating their proposal of grant budget and capacity development programmes for Member of Parliament […] (Key personnel of planning and development agency of CSM)

This give and take approach was also noticed in interactions between members of EBTF and actors of departments in formulating targeted performance measures. Adjustment

of targeted performance can be done with a certain consensus, as represented in the following quote.

> […]EBTF could degrade this year's targeted performance of some programmes in our institution. For instance, the target that was to establish five higher education institutions, stated in the strategic plan, seemed irrational for us to achieve. As this year's budget preparation (2013) is the second year of strategic plan implementation and EBTF know that is impossible to achieve, they agreed to change the target from the word "establishment" become "preparation". This brings consequences for the rationalization of our budget allocation. […]  (Head of DE of RBK)

Despite these similarities, there are a number of important differences in the way to perform transactional negotiations, as observed in the three local governments. Compared to actors in RPM and CSM, actors of RBK seem have a tendency to conduct informal conventions during the process, as can be seen in the following quote.

> […] Informal meetings were often performed by politicians in private with us, with regard to budget proposals which were discussed in parliament building. If this happens, then we have to do the best to make sense of what they ask for. Although they already agreed with the KUA and PPAS (budget policy), they proposed modifications. We could not directly reject these politicians' requests as they have official right, by the law, to legislate the budget. At the end, we agreed with some modifications […] (Head of budget officer of RBK)

The ways of transactional negotiation that occur in a local government which has a strong legislature, has the power to influence executive actors during budget discussions in the parliament building. Therefore, actors in RBK experienced more struggles to obtain a final consensus within the required schedule than in RPM and CSM. The legislature in RBK is stronger than the executive in influencing the budget policy; hence flexibility efforts for creating an elastic budget are bigger than in the CSM and RPM. As a result, RBK almost never complies with the required enactment date stated in national regulations.

Unlike RBK, transactional negotiations in RPM and CSM tend to have similar approaches. Executive actors of both organisations prefer to bargain and negotiate the proposed budget with parliament in formal meetings, instead of informal meetings. RPM and CSM have executive actors that are politically stronger than their legislative actors. In this circumstance, top leaders of the executive actors, such as a mayor or regent, have power to influence politically legislative actors, as the top leader could create a dominant stream of arguments in the parliament building. The budgeting task force of RPM can propose any budget policy changes to parliament with confidence as they perceive most members of the legislature would agree with the top leader's proposal, as instanced in the following quote.

> [...] Revision might also be requested by top leaders in the last minutes of budgeting process. No choice, we have to deal with this request, therefore, modifications of previous agreement in KUA and PPA (budget policy) with parliament were inevitably needed. [...] (CFO of RPM)

In a similar but different way, CSM actors have accommodated the most important interest of mayors before the process of negotiation. Therefore, the negotiation process was conducted by actors of the executive to focus on the most important interests that have been accommodated previously. Legislative actors would follow whichever dominant perspective had emerged from the budget discussions, for final consensus.

Finally, interest harmonisation could not be obtained without a formal meeting of a legitimate forum. Accommodation, bargaining and transactional negotiation were possibly conducted in informal meetings or outside the schedule of budget discussion. The implementation of a performance-based system has encouraged intensive discussion about relational explanations of allocation and performance measures.

As a legitimate forum, all budgeting interactions were perceived as a process of proposed budget verification which was legislated formally. Despite the formal forum, most interaction was conducted informally. Informal meetings were perceived as the medium to accelerate understanding between actors. The actors also tended to believe that an informal forum of interaction also helps to identify various interests between actors. However, most actors in all observed organisations agreed that all decisions during interactions within the budgeting process were finalised in formal meetings. All of the interactions are represented in the following quotes:

> [...] Yeah...I cannot reject directly proposed budget obtained from outside the formal meeting, especially from politicians who might bring aspiration from public....Usually, I will ask them to sign formally their proposed budget in documentation sheet paper that will be subject to discussion later in the formal meeting [...]( Key personnel of planning and development agency at RBK)

> [...] All of proposed budget from department or agency should be signed formally by the head of department or agency before given to us as "EBTF". We discuss it in further EBTF meeting [...] (CFO of RBK)

## 7.4  Strategies

The following discussions are strategies as responses or routine tactics of individuals or groups for managing the harmonising of interests. There are four strategies: managing public legitimacy, managing trust relationships, playing power games, and utilising procedural compliance in internal control. These strategies are discussed in detail in the following sections.

### 7.4.1  Managing public legitimacy

One of highlighted responses for managing the harmonising of interests was labelled as managing public legitimacy.  This response was consistently and similarly performed during the implementation of the reform within all three observed local governments. The managing public legitimacy included actions in providing a budget to support and project a good public image, through the role of the press and non-government organisations, by positively reviewing government achievements. The actions involved publishing more about the successful achievements linked to the reform instead of mentioning any of the failures. These actions were noted as responses to when actors kept employing absurd measures of performance, both for flexibility and for ease of accommodating dynamic interests.

As national rules required implementation of performance based budgeting and new accounting standards, individuals or groups committed themselves to comply with regulations when such behaviour would be in accordance with good image creation. As a result, the extent of good image creation, which could be acquired from reform requirements, demonstrated the effort level of compliance to the regulation. Opportunities to create good impressions from strategic actions of executive via the process of reform implementation, in order to impress the general public, are cited in the following quotes:

> [...] We improve nothing if public trust was failed to be obtained although our performance measures of budget in SMART (Simple, Measurable, Achievable, Relevant, and Timed) meet the criteria. The ideal is that the performance measures and budget allocation can also be utilised to communicate our achievement in order to develop public trust [...] (Head of planning and development agency of RBK)

> [...] Getting unqualified opinion (WTP) from the national audit board often becomes the short term objective of executive members although performances of their public service were not significantly improved yet. We could see from the press publication, local government with WTP (unqualified opinion) tend to boast it is for good image creation. I always ask them, "What benefit to public for getting the unqualified opinion?" [...] (Politician of CSM)

There were three strategies of managing public legitimacy:  maintaining and projecting good impression via a display window for public consumption, performing purposive compliance for legalisation and securing an image free from the negative prejudice of corruption. These three strategies are discussed below.

### 7.4.1.1  Maintaining a good impression for the public as a 'display window'

As political process is the nature of government budgeting, sending good impressions to public could be established in order to manage the harmonising of interests. The

displaying of positive reports and impressions was intended to maintain the top leaders' good reputation and constituents' support. If this situation could be achieved, the process of interest harmonisation was not a difficult matter during the political processes involved in budgeting and the implementation of reforms. Good impressions, as perceived by the public can be utilised as a power to support bargaining and transactional negotiation. The strategy of maintaining a good impression in the eyes of the public was a response to support actions of preferring comfortable conditions when implementing the reform. Executive actors could easily access the middle way of agreement if they have got public support. The effort to obtain, as well as maintain, a positive public impression was reflected in the following quotes.

> [...]I believe the public are satisfied with the improvement of sidewalk on main roadway as local media often write the news of public opinion as headlines. Usually, as long as media inform the good news, we believe the public will fully support our programmes. Then, it makes it easy to discuss with parliament [...] (Head of planning and development agency at CSM)

Moreover, executives and Members of Parliament attempted to avoid creating bad public images, particularly with their constituents, regarding budget operations. This effort was revealed in the following quotes.

> [...] Free of charge in health and education service of RBK was the most famous campaign programmes of Bupati (executive leader). Execution of this programme cannot be disturbed for any reason. This must be accomplished as soon as possible. We have to secure that programme provided with discretion of fund allocation to anticipate possible technical changes from the initial plan that might need budget adjustment. This adjustment was needed since the problems of implementation are too complex. Bupati will control day-by- day as he doesn't want to lose face in front of his constituents who elected him [...] (Head of planning and development agency at RBK)

> [...] As the Bupati (executive leader) promised to prioritise health improvement in his political campaign, politicians almost never reject all proposed budget if it relate to health service such as budget provision of medicine, hospital equipment etc. It is such a sensitive issue if public know that budget for health service allocation was rejected by members of parliament [...] (Key personnel of DH at RBK)

### 7.4.1.2  Performing purposive compliance for legalisation

This was a strategy employed to obtain legitimacy of the required reform as actors and groups search to create a comfortable feeling by choosing to adhere to, and perform, old norms. Executives and politicians acknowledged the requirements of performance-based budgeting implementation but chose more actions oriented towards compliance rather than efficiency. This was addressed for reward and punishment consideration and conforming to meet an enactment date, as stated in the regulation. Reward can be employed to enhance public legitimacy, whereas punishment was managed purposively for organisational stability.

Reward and punishment were taken into account by actors and groups, as outcomes of compliance efforts to meet the requirements of reform. In practice, actors and groups did not always attempt to conform to the requirement, especially if this effort was unrelated to the feelings of 'safety and comfort'. They pursued reward from vertical government only if easiness, little risk and simplicity could be maintained or acquired among alternatives of legitimate actions, as represented in the following quote.

> […] We got WTP (unqualified opinion) from BPK (supreme audit board) nearly three times. We are one of several local governments in Indonesia that implemented full accrual accounting. Yes, we commit to implement as central government needs a pilot project of accrual implementation through the World Bank's agenda. If there were not financial support for this development, I believe we wouldn't choose the accrual system […] (Key personnel of CFO office at CSM)

On the other hand, the actors were prepared for punishment if middle ways of agreement between executives and legislators have been purposively achieved for organisational stability, but failed to conform to the legislated requirements. Getting punishment from vertical government could be anticipated purposively as long as this was addressed to obtain stability in the harmonising of interests. This perception of punishment was reflected in the following quote.

> […] As a representation of central government in particular region, I know that the provincial government monitored our enactment date of final budget document. We never conform to 31st December as the date of budget determination which was required in national regulation. I believe that more problems are highly possible to occur when we push the budget agreement to conform to the required date. Many interests might be fail to be accommodated if we keep strictly to the rule and try to avoid punishment. One word to represent the reason of this was "stability" […] (CFO of RBK)

### 7.4.1.3 Securing an image free from the taint and prejudice of corruption

Securing image from prejudice of corruption was a strategy to maintain public trust that determine to feeling of safety of actors or groups. Head of department, key staff and Member of Parliament are quite anxious with the existing law that might drag them, conscious or without conscious, to budgeting related actions which were considered prejudicially as corruption behaviour. They secured the good image by practicing sagacious transparency and managing path information to public.

Sagacious transparency was a terminology, represented actions of actors or groups that explained one of strategies to acquire feeling of safety.  Considering easiness is part of feeling of safety, actors or groups justified their effort through interpretation of transparency.   Actors and groups perceived reform as assertion of transparency; therefore technical budgeting was performed to ensure the final documents of proposed budget could be published as it has been required in the national regulation.

However, this perception was also coupled with effort to avoid difficulty if public become more aware then may start to criticize actively the informed budget. Filtering public information with regard to performance budget was not only for regulation conformity but also to ensure appropriate publication for public. This could be reflected in the following quote.

> [...] For me, transparency does not mean we have to publish all information regarding budget documents. Likely a room that has a net curtain, the contain of the room was never clearly see in detail from outside but quite enough to view the whole object[...] (Politician of RPM)

### 7.4.2   Managing trust relationships

This was a strategy with regard to the norms of budgeting that were mostly employed to perform the reform and day- to- day practice of budgeting. This represented an embedded cultural background in which local governments operate. Due to interest complexity that should be harmonised during implementation of the reform through the process of accommodation, bargaining and transactional negotiation, and the middle way of agreement, thus actors and groups utilised trust to manage this situation. There were two types of trust utilisation: employing emotional based trust, and performing transactional based trust. These are discussed in the following section.

### 7.4.2.1   Employing emotional based trust

This is a type of trust utilisation that was identified mostly in RPM and CSM as the influence of Javanese culture when respect to someone senior or a leader becomes an important value, compared to non-Javanese located organisations, during actors' interactions. The motivation of doing this related to maintaining actors' comfortable conditions. For instance, a junior staff member might debate indirectly with their senior/leader regarding improper budget action plan, then they might ask help from another senior to debate it in order to try to convince their senior/leader.  It might be perceived as impolite to debate directly, although they propose a proper argument, so making situation more difficult to manage. Despite the senior/leader giving opportunity to them for debating, they preferred to support their argument through a trusted third party who was confidant to communicate with their senior/leader. Then, junior/staff confidently joined further debate when common understanding has been achieved. They believed that their senior/leader might agree more easily if the proper argument was delivered by another trustworthy senior/leader instead of coming from them directly, so preventing any 'loss of face'. These points are represented in the following quotes.

> [...] It is impossible for me to ask directly about justification of allocation reduction from EBTF during the budget meeting.  Previous year, we got 55 billion for office maintenance but now we only get 25 billion; that is definitely below our expectation.

> Although I could debate assumption of EBTF that was clearly unsuitable for our needs, I prefer give this debating task to my boss as EBTF consists of many senior […] (Key personnel of DE at RPM)

> […] Yes, in Javanese proverb we often say "Nabok Nyilih Tangan" (slap with borrowed hand) …For example, to defeat argument of respectful person or senior by using another equivalent person/senior to debate. […] (Observational Notes, Official of DE at CSM)

Moreover, with leadership charisma and political will, junior/staff might easily follow direction, without debate, from a senior/leader if they perceived their senior/leader as a role-model. The senior/leader will rely on the trusted junior/staff who could understand their mission or intention during the budget discussions. This practice of trust utilisation was highlighted during budget operations in RPM and CSM, as reflected in the following quotes.

> […] For us, it is simple. If a leader/senior showed real example how to perform efficiently with regard to their job, we feel embarrassed if we don't think and act like them. […] (Head of budget officer of CFO office at RPM)

> […] Why I trust him/her to handle most of all budgetary process. I couldn't give it to other personnel who are incompetent to handle that task and I don't want to control my staff's work day by day as they should know what I intend to. I need a person in whom I fully believe; therefore I should know him/her personally.   […] (Head of DE at CSM)

### 7.4.2.2  Performing transactional based trust

This trust utilisation was generally highlighted in all observed local governments. As a political process between members of the executive and members of parliament, transactional based trust was a strategy to harmonise interest as a process of stability. Despite the traditional conflict of parliaments versus executives, this type of trust utilisation was also commonly identified among members of executives in all observed organisations. This included results of personnel's financial rewards and compensation by giving strategic job positions as a result of past contributions. More specifically, this trust utilisation was more common during executives' interaction in RBK, where Riau Malay culture exists in the social environment but exists less so in Javanese local government.

First, this trust utilisation was represented in the practice of performance achievement related allocation, either based on traditional or on new performance models. Most actors and group members in all observed organisations perceived that current allocations relate to previous year's performance achievement. The greater the achievement of the previous year's budget absorption rate, the better the opportunity to obtained funding in terms of allocation amount. This type of transactional based

trust arises from consideration of financial reward that can be represented in the following quote.

> […]This 2013 budget, we got additional allocation from previous year from EBTF. One of the requirements to get this related to our previous year's budget absorption rate was that it should be more than 90%. New targeted performances with additional allocation would never be given if we were below the target [...] (Key personnel of DH at CSM)

Second, trust was often established based on the practice of clanship. With this trust, feelings of safety can be created securely by actors or groups. This relates to the ease of actors or groups to manage stability during their interaction of reform implementation, such as when dealing with dynamic change of national regulations. Clanship in this context means that sources of trust are obtained from past informal agreements between actors or groups who are either from the same clan or the same place of origin. Actors or groups often recompense their clan members in organisations with certain positions and allocation of budget, as they have contributed in the past. This mind-set is reflected in the following quotes.

> [...] Previously, I was a provincial officer. I tried to get the opportunity of being a manager but impossible if I was still in provincial office. The opportunity arises when the current Bupati (top leader) asked me to join to be his election campaign officer for the election of Bupati RBK. Short story, we did it. I was appointed by the elected Bupati as head of revenue department [...] (Head of revenue office at RBK)

> [...] I know that Bupati has several trusty persons who could strongly influence decisions of budget allocation. They have all made significant past contributions to the victory of Election Day. Bupati (regent) could manage easily his direction in budgeting through his clan [...] (CFO of RBK)

### 7.4.3  Playing the power game

Another strategy of managing the harmonising of interests is playing the power game. This strategy is a biased form of balance of power, as a response for achieving the objective of interest harmonisation, during interaction among involved actors or groups. Conceptually, the balance of power in budgeting was stressed as important in the reform; it can be interpreted as a process to develop control through a check and balance mechanism. Moreover, the process was established to create accountability either horizontally or vertically. In all the observed organisations, a balance of power was a normative concept rather than practical concept, due to actors or groups may wanting to actively utilise their power to deal with their interests, after which they will try to harmonise the existence of various interests. Certain powers are possible to be more dominant than others, making it almost impossible to achieve balance. The interests of actors or groups, synchronised with the requirement of reform, have been harmonised towards stability through playing the game of power.

As illustration, parliament has the power to demand information from the executive that is relevant to budgetary issues. They might reject or agree with the proposed budget. On the other hand, executives have the constitutional right to prepare and propose an annual budget to parliament by referring to documents of strategic planning for local government. Parliament could not propose a budget without the executive's initiative. If parliament disagrees, and the proposed budget formulated by the executive was rejected by parliament until the regulated deadline, the executive could legally employ the previous year's budget as an annual plan. This could be reflected in the following quote.

> [...] If they (politicians) continuously reject our proposal...no choice...we may use previous year's budget as the current enacted budget which refer to the previous year's agreement with local parliament [...] ( CFO of CSM)

Moreover, the member of executive also has internal interaction. Executives consist of the executive task force, namely EBTF, and members of departments where the budget was formulated, using a combination of top-down and bottom-up approaches. Power was also played in the interaction of actors inside EBTF and with the departments or agencies. EBTF has power to judge past performance and make initial allocations to agencies or departments, while EBTF would also really depend on actors or groups inside an agency to design a proposed budget that could technically support the targeted outcome.

The strategy that was labelled as a power game was observed in the process of proposed budget scrutinisation, in terms of prioritisation of judgements and the ways of negotiating and bargaining in which power was used. Actors and groups played actions like a game by employing their power; therefore winning the discussion was the underlying intention of the game. To win the game, they have to prepare a strongly justified budget prioritisation, either based on targeted performance indicators or based on certain groups of expenditure. This approach was labelled as a game of prioritisation. Another approach, highlighted in the game-of-power-like strategy, was gaining dominance through a disagreement contest and games of give and take. One side provides something to their counterpart in order to get an agreement or vice versa. These two strategic power games are discussed below.

### 7.4.3.1  Games of prioritisation

This is an early step in the power game. During budget policy formulation, namely KUA and PPAS, EBTF formulated early fund allocations based on certain criteria that are taken into account, such as patterns of indirect cost behaviour and the priority of programmes. The allocation starts with an analysis of expenditures which are

categorised as mandatory and which is highly committed to the current budget structure as required in the national regulations. To do this required synchronisation, with either national or provincial prioritisation. If local government does not conform to this regulation, the enacted budget could be revoked by central government through the authority of the provincial government, as the MoHA regulation no 13 / 2006 stated in the following quote.

> […] The evaluation aims to ensure compatibility between local and national policy, compatibility between public and official interest, and to ensure that the enacted budget does not contradict with public interest, national or province legislation, and local legislation […] (chapter no 111 and verse no3)

> […] If the evaluation result is not followed by local government (bupati/walikota and DPRD) and they remain to enact the budget as local legislation, the province (governor) should revoke the budget legislation and officially state that previous year's enacted budget as current regulation[…] (chapter no 111 and verse no 8)

In term of prioritisation, actors and groups of EBTF began the game by employing this evaluation consideration. Every year, central government, represented by MoHA, publishes guidance of prioritisation that referred to the development stage of the national strategic plan (namely RPJMN). For example, MoHA regulation no 37/2012, regarding budget guidance for the year 2013, provides a prioritisation working table, as illustrated in the following table 7.1.

Table 7. 1 Local government policy synchronisation between draft of enacted budget of local government and national development priority

| No | National Priority | Expenditure Budget in Local Government Budget | | Amount |
|---|---|---|---|---|
| | | Direct Expenditure*) | Indirect Expenditure **) | |
| 1 | 2 | 3 | 4 | 5=3+4 |
| 1 | Reformation of bureaucracy and governance; | xx | xx | xx |
| 2 | Education; | xx | xx | xx |
| 3 | Health; | xx | xx | xx |
| 4 | Poverty Reduction; | xx | xx | xx |
| 5 | Food Security; | xx | xx | xx |
| 6 | Infrastructure; | xx | xx | xx |
| 7 | Investment and Business Development; | xx | xx | xx |
| 8 | Energy; | xx | xx | xx |
| 9 | Environment and Disaster; | xx | xx | xx |
| 10 | Specific Region development | xx | xx | xx |
| 11 | Culture, creativity and technology innovation; | xx | xx | xx |
| 12 | Other priority: | xx | xx | xx |
| | a. Politics, Law and National Security; | xx | xx | xx |
| | b. Economics; | xx | xx | xx |
| | c. Welfare. | xx | xx | xx |

*) Personnel expenditures; Goods and Services expenditures; and Capital Expenditures.
**) Personnel expenditures; Interest; subsidies; grant; donation; Financial support/sharing; and unexpected expenditures.

EBTF prepared early allocations of expenditures for each SKPD (agency or department) referring to this prioritisation combined with provincial prioritisation and prioritisation of RPJMD as the local government strategic plan. With the early budget allocation of expenditure, actors inside EBTF expected they could easily manage various interests which might challenge each other by providing budget ceilings and prioritisation of programmes. This perception is reflected in the following quote.

> [...] MoHA regulation No 37/2012 was basic justification to argue early allocation in upcoming budget discussions. However, it might be adjusted before or during discussion with parliament depend on emerging interest. National and provincial policy should be accommodated. If not, the province would definitely reject the budget for being legislated during the evaluation process [...] (Head of planning and development agency of RPM)

First, prioritisation games exist either among executives or with parliament that utilised expenditure prioritisation based on the legitimated current budget structure and the importance of certain expenditure types. Prioritisation of indirect expenditure was one ring-fencing strategy to arrange hidden allowances in order to provide ability to accommodate emerging powerful interests, as stability also means flexibility and being easy to manage. As illustrated, all observed governments were playing with the indirect expenditure prioritisation as reflected in the following table 7.2.

Table 7. 2 Pattern between early and final allocation of indirect and direct expenditure in all observed local governments

| Type of Expenditures | RBK (In million rupiah) | | RPM (In million rupiah) | | CSM (In million rupiah) | |
|---|---|---|---|---|---|---|
| | Early Allocation | Final Budget | Early Allocation | Final Budget | Early Allocation | Final Budget |
| Indirect Expenditures | 1,987,890 | 1,712,095 | 959,871 | 952,785 | 1,219,653 | 1,208,261 |
| Direct Expenditures | 2,980,761 | 3,054,169 | 520,781 | 523,504 | 1,407,762 | 1,448,763 |

In this case, actors or groups of executives played prioritisation to ring-fence certain amounts of expenditure budget in order to create hidden allowances for other expenditures. This prioritisation of all observed organisations is illustrated in the following quote.

> […]In early allocation, politicians always ask about personnel budget in indirect expenditure that is often over-budgeted. The budget was estimated independently by each SKPD because the data regarding number of personnel and its data movement could not be monitored easily by EBTF. The final data would be available when the central government publishes the PNS (government officers) data for each local government and SKPD updates the non-PNS data. In this case, actors of SKPD used this opportunity to budget more with conservative consideration, as it related to personnel salaries, but they might get opportunity to provide allowance for maintaining new proposals when the actual budget is less than estimated budget […] ( Key personnel of CFO officer at RBK)

Another prioritisation that ring-fenced allocation of indirect expenditure was intended to set the allocation of grants and donations since the early process of budgeting. Unlike other indirect expenditures, this allocation was addressed to ensure availability of allocation for the constituents of politicians and executive leaders (Bupati/Walikota) rather than to establish a hidden allowance. Grant and donation allocation was also perceived importantly as the medium to develop interest harmonisation between executives and parliaments. Allocation of grants and donations was one of the most salient topics for early discussion, compared to other allocations. Politicians perceived that they could not significantly influence the early allocation in direct expenditures for programmes and activities, as these matters were taken into account as executives' initiatives. Politicians were and are strongly concerned about the prioritisation of grants and donations as political instruments to maintain the goodwill and support of their constituents. As a result, executives proposed early allocation to be discussed with parliament as long as they had allocated the grants and donations. These prioritisation games were highlighted in all observed local governments, as reflected in the following quotes.

> […] I preferred to delay discussion if EBTF do not inform proposed budget of grant and donation that would be allocated by executives, as it has political benefit for someone who gives the grant/donation. I do not want the executive (the mayor or regent) to monopolise the grant/donation allocation for their own political interest […] (Politician of RBK)

> […] Grant and donation budget are eye catching for them. I believe, we could not continue the process if these budgets were not clear enough for politicians […] (Key personnel of CFO's office at RPM)

Moreover, these prioritisation games were supported by a budget of revenue and receipt from the previous year's balance, namely as SiLPA. A CFO, as the legitimated person authorised to provide this information therefore played the role of stabiliser. As the budgeted amount was an estimation of on-going transactions, and it would be influenced by many variables, thus the CFO conservatively estimated the budgeted revenues and receipts. The CFO was expected to be an actor who could manage the information and then know when the estimation needed revising. Updated estimations during budget discussions were often conducted to support negotiation which mostly required an additional budget. Therefore, the CFO preferred to inform the revenues and receipts estimation only based on current legitimated documents and information. Adjustment was only made to ensure that potential over-budgeting, in early allocation, could be anticipated. CFOs preferred the budgeted amount was under-valued at the beginning of the budget discussion and then it could be adjusted to cover any emerging proposals. It would be a difficult situation when revenue and receipt budget had been allocated, with full capacity in expenditures, only to find early assumptions needed correcting; a situation that may see the need to reduce the proposed expenditure budget.

### 7.4.3.2  **Playing the game of dominance**

Another power game relates to dominance. This strategy was a second stage in the game of using power like actions when the prioritisation of certain expenditures has been set up. This was a strategy as a response to competing interests during the implementation of the reform; in the context of either executives/EBTF versus parliament or EBTF versus agencies/departments.

As a response to budget and accounting reform implementation, debate and discussion about the budget become more focused on the annual targeted outcome of RPJMD (strategic plan of local government). RPJMD was a local government regulation that functions as local political commitment between executives and legislators to create better public service for a 5 year period. Thus, actors or groups perceived performance measures as an important medium for negotiation to construct a budget

agreement. On the other hand, prioritisation of certain indirect expenditures such as personnel, the grant and donation budget, which have been allocated during the early process, were nearly disregarded at this stage of the game. Actors and groups were substantially more concerned about the proposed performance measures related to the allocation of direct expenditures budget (programmes and activities) and the way to argue in the formal meeting. Normatively, the one who could defend conceptually, as either executive or parliament, would dominantly influence the decision. Meanwhile, accounting information was mostly utilised to estimate the revenue and receipt budget but was less employed for calculating the expenditure budget. Estimation of expenditure during budget preparation relied on incremental amounts of the previous year's budget since realisation of the previous budget was still on progress.

This incremental approach was noted as quite similar in all the observed organisations, whether they were employing cash or an accrual accounting system. As a result, the 'playing of dominance' was the way for actors or groups to establish agreement when accounting information was less prominent in the decision making of budgeting. In this strategy, the dominance game consisted of utilising disagreement contests and playing give and take.

First, a disagreement contest was an approach that was commonly employed by actors or groups to begin negotiations. During budget scrutinisation, disagreements were often manufactured as a trigger for the negotiation process. This can be likened to a working car engine; disagreement played the role of induction to create pressure or power. In this context, both EBTF which consists of professional bureaucrats and the legislature, which is comprised of politicians, played the disagreement game in order to use their influence during the negotiation process. The 'disagreement contest' was motivated by the intention to harmonise interests during the implementation of performance-based budgeting. This strategy is represented in the following examples of disagreement and resulting pressure as illustrated in the table 7.3 below.

Table 7. 3 Example of the disagreement and resulting pressure form actors/groups in all observed local governments

| Local government | Actors/Groups who disagree | Subject of disagreement | Pressure from actors/groups |
|---|---|---|---|
| CSM | Politicians | Local revenue estimation which was prepared by EBTF | Evaluation of executives' performance in generating local revenue |
| | EBTF/Member of executives | New proposal of grant or donation from politicians | Reviewing the budget refers to national regulations related to consistency requirement between final allocation and committed budget policy (KUA and PPAS). |
| RPM | Politicians | Inconsistency of budget allocation with agreed policy (KUA and PPAS) that were proposed by EBTF | Reviewing the budget refers to national regulations related to consistency requirement between final allocation and committed budget policy (KUA and PPAS). |
| | EBTF/Member of executives | New proposed programmes or activities from politicians | Reviewing the budget refers to strategic plan and synchronisation with national or provincial prioritisation as KUA and PPAS (budget policy) was temporarily agreed. |
| RBK | Politicians | Strictly follow the proposed budget on time schedule discussion prepared by executives. | Agreement will only be made when fulfilment of their constituents' requests, either in the form of grant and donation or in the form of programs/activities, have been allocated. |
| | EBTF/Member of executives | Too strict with the agreement of expenditures limitation from politicians. | Reject new proposal or additional allocation from members of the legislature. |

*Observation notes made during the budgeting process*

Second, following the disagreement contest in playing dominance was a game of give and take. As a metaphor, stability of the working car engine will only be achieved when there is both intake and exhaust. In this context, the give and take game was consistently perceived as a negotiating strategy between actors or groups. Give and take was observed during budget policy formulation, policy operationalisation and budget scrutinisation. Actors or groups got an agreed allocation often related to compliance to hidden requests from their counterparts. This game functioned only in the area when national and provincial policy or legislation did not cover or regulate the

area of discussion. The involved parties would play another strategy when national or provincial representatives clearly state the requirement in detail, rather than regulate normatively the area of discussion. This game can be instanced in the following quotes to describe the case of CSM.

> […] Did you know of a shameful scandal in CSM..? Several members of the parliamentary budget agency (Banggar) have been bribed by EBTF members to deal with agreement of additional allocation for executives' personal allowances. As national headline news, actors involved in the bribery have been arrested by the anti-corruption commission […} (politician of CSM)

This scandal has proven that the give and take game could be either unconstitutional or constitutional. The case of CSM was an example of unconstitutional actions. The most common way of the give and take game was accommodation of the counterpart's interest for getting approval of certain allocation through a legitimate process. This was achieved by using informal meetings to formulate pre-agreements before attending formal meetings. Through this strategy, actors or groups intend to obtain feelings of safety, particularly regarding ease of gaining approval, and to create flexibility of allocation. These strategies are illustrated in the following quotes.

> […] You know. I just got a phone call from chairman of the parliament. He asked me to ensure whether all grant and social aid budget, proposed by members of parliament, have been accommodated before the discussion meeting with parliament. […] (CFO of RBK)

> […] I understand why executives accommodate new proposals of donation budget from my fellow politicians. They need additional allocation for personal allowances. […] (Key persoonel of CFO's office at RPM)

### 7.4.4 Using procedural compliance for internal control

This was a strategy that was commonly employed for managing the harmonising of interest, and was particularly popular for obtaining comfortable feelings or conforming to old norms. Although the performance budgeting system has been evident in all observed governments, through the MoHA regulation, actors or groups perceived control as a mechanism to establish legitimate procedures rather than focusing on monitoring of performance achievement. Actors or groups perceived that assessment by either internal or external auditors was almost never linked to performance issues. This could be seen in the following quotes.

> […]As long as we did not break the procedures and our realisation rate was good, we would not be questioned by auditors regarding our performance achievement […] (Key personnel of DH of RPM).

> […] As an example, our department achieved the target of providing free health service …however; this was nothing if we could not follow legitimate procedures during implementation of our targeted plan. The audit report can often be negative and might create further political issues […] (Key personnel of DH of RBK)

In the organisation of CSM, which has implemented an accrual accounting system, the budgeting process is technically very similar to those of the other observed local

governments. Budgets and accounting were likened to two different things coming from different sources. The budget amount was estimated incrementally from the previous years' budgets rather than using accounting information for budget realisation. In RBK and RPM the implementation pattern of their performance budget system was almost never linked to accrual accounting information. The significant difference with CSM was the effort of accrual accounting implementation that resulted in WTP or an unqualified audit opinion from the national audit board (Badan Pemeriksa Keuangan). However, this was only beneficial for conformity to the rules, rather than for public policy decision making. This can be seen in the following quote.

> [...] I challenged CFO (Kepala DPKAD) to provide me accrual information which can be used for budgeting in order to provide better public services. In reality, the executive's staffs always calculate cash necessity in their public service proposal. Meanwhile, performance measures, formulated to refer to national regulation, didn't have any impact on significant improvement at public service [...] (Politician of CSM)

As a norm, this practice of rules-based control has clearly dominated actors' perceptions when implementing the reform. They often resorted to rigid documentation for accountability but gave less meaning to performance achievement and mostly just focused on the budget's realisation rate. This situation ran parallel with the perspectives of internal and external audits that are more concerned to procedural compliance instead of performance principles related control.

Justification of this practice related to actors' or groups' feelings of safety and performing old norms. Using these rule-based approaches reduced the complexity of control; thus easiness could be obtained in terms of reporting and compliance with the rules. This way of doing things also clarified the presence of traditional control systems as a legacy from the previous regime; a legacy that had been strongly institutionalised in local governments' financial management methods.

## 7.5 Causal conditions

There were four causal conditions of managing the harmonising of interests: influence of central and provincial organisations, fear, distrust and struggling due to complexity. Detailed explanations of the conditions are presented in the following sections.

### 7.5.1 The influence of central and provincial governments

Central and provincial governments influence actors in local governments through published regulations and policy respectively. After the end of the previous regime or centralistic system, local government organisations experienced greater autonomy, with direct elections to strengthen the process and status of decentralisation. Despite

this decentralisation having generated more autonomous organisations, the national value of NKRI (unitary state) still attracted strong commitment, as stated in the constitution. As a result, the presence of vertical organisations' power from either the central or provincial government was consistently employed to influence local government policies, including budgeting reform. Implementation of the reforms was naturally conducted in differing interest environments, mostly between executives and legislators that must be synchronised with national or provincial regulations. As result, actors and groups were highly concerned to harmonise their interests during the implementation of the reform.

In reality, the power was perceived as an ability of central government to influence groups of actors from local governments to conduct certain programmes or strategies and implement the reform. The form of influence can be either by issuing regulations and guidance or through fund-transfer instruments. This was reflected in a quote from the national regulations (PP/58/2005) and dependency of funds from central government respectively.

> [...]Formulation of local government budget policy (KUA) as stated at verse number 1 must correspond to the guidance of local government budget formulation that is regulated by MoHA[...] ( PP /58 / 2005 article no.34 verse no.2 )

Dependency on central government can be reflected in the following table when all observed local governments depended significantly on the national transfer fund. The most dependent local government was RBK whose transferred funds equalled 92% of total revenue, whilst the least dependent organisation was CSM that received 56% of their total revenue from the central government. Detail figure of the revenues are presented in the table 7.4 as follow.

Table 7. 4 Revenue sources for three local governments

| Type of Revenue | CSM | | RBK | | RPM | |
|---|---|---|---|---|---|---|
| | In Millions of Rupiah | % | In Millions of Rupiah | % | In Millions of Rupiah | % |
| Natural resources sharing revenue (DBH) | 97,058 | 5% | 2,952,228 | 90% | 27,531 | 2% |
| General transfer fund (DAU) | 1,054,003 | 49% | 31,862 | 1% | 931,427 | 69% |
| Specific purpose transfer fund (DAK) | 49,977 | 2% | 10,053 | 0.1% | 71,402 | 5% |
| Total transfer fund (Dana Perimbangan) | 1,201,037 | 56% | 2,994,143 | 92% | 1,030,360 | 76% |
| Total Revenue | 2,141,734 | | 3,271,264 | | 1,353,367 | |

Another reflection of the central government's power was awareness of the importance of national policy as seen in efforts to conform to national regulations and policy. Actors and groups were strongly aware of the explanation of rules in national

regulations, thus they could interpret the legislation appropriately. In the case of facing multiple interpretations of a rule or conflicting regulation, they often ask for clarification from credible officers from the central government (Officer of MoHA) to ensure that their interpretation corresponds to the underlying intentions of the legislation.  These issues are presented in the following quotes.

> […] Fund allocation of School Operational Aid ("Dana BOS") that was budgeted by central government has various policies every year. As the education department, we have to adjust our budget to avoid overlapping with central government's allocations […] (Key personnel of DE at RPM)

> […] I think central government only gives authority to collect local revenue that does not potentially contribute significantly to the increase of our receipts. We cannot freely extend revenue objective without approval from central government. […] ( Key personnel of revenue office at RBK)

Efforts to conform to the reform's requirements were also reflected in actors' or groups' actions in following national regulations. These included synchronising local regulations with national regulations and anticipating dynamic regulations. The effort to follow national regulations was the cause of organisational stability; necessary as the effort must be compatible with local political interests.

Another vertical organisation influence was that of the provincial government which appears very similar to the central government's influences discussed above. Following the norm of the provincial government was highlighted as a condition that contributes to the relevance of obtaining organisational stability. This includes benchmarking the norm and having awareness of the important role of their provincial government, and being compliant with the province's overall policy.

Benchmarking the province's norm was evidence of the influence of vertical organisation, as illustrated in the following quote.

> […]We were evaluated and monitored by the province every year using their norms and rules. For that reason, we follow cost standardisation of "perjalanan dinas" (personnel's business trip) as practiced by our province. It also simplifies our job if we are questioned about efficiency policy by auditors […] (Key personnel of CFO's office at RBK)

Actors or groups from local government perceived that their practice of reform implementation will be evaluated using norms or rules relevant to their province. Thus, complexity of interaction during reform implementation may increase if they are not aware of the norms or rules. Managing the harmonising of interests was a reaction to maintain local political interest that also takes into account the framework of the province's norms and rules.

Second, compliance with provincial policy was a condition when actors or groups were obliged to accommodate the interests of their provincial government. Unlike in the role

of central government representation, the provincial government influences local government through their own policy. One of the issues of most concern, taken from the perspective of involved actors or groups, was the province's policy of monitoring and evaluating budget enactment. Actors or groups perceived that provincial policy referred to the policy of the province's officer who is assigned to carry out the monitoring. However, degrees of legitimacy from local government clearly depend on the discretion of the provincial officer's policy. These perceptions are highlighted in the following quotes.

> [...] Although we didn't follow the timetable of budget formulation, as mentioned in the MoHA regulation, but we committed to the enactment date deadline. This is the important request from our province's officers [...] (Key personnel of CFO's office at RPM)

> [...] They monitored us not only regarding the enactment date, but also our commitment to provincial policy as stated in their RPJMD (strategic plan) which was translated in their RKPD (executive annual plan). Therefore, to make sure that our interpretation is not problematic, we involved province officers during executive meeting [...] (Key personnel of CFO's office at CSM)

This influence of the provincial officer(s) is also similar in the case of RBK, although the characteristics of influence were quite different when evaluation and monitoring of the enactment date was less enforced. The influence of the province's officer can be seen on the allocation for obtaining province-proposed programmes by utilising noncompliance practice of local government. This is seen in the following quote.

> [...] We never conform to the enactment date requirement. But, the province's officer often helps us to manage this situation. They know that our delay case is difficult to solve because not only huge money from natural resources sharing has consequences regarding uncertainty of fiscal capacity but also problems of limited time for allocation. We recompense them by providing an allocated programme or activities for the provincial government such as province sport championship and Muslim celebration events which were held in RBK. [...] (Key personnel of CFO's office at RBK)

All of these influences from the central and provincial governments directly drive actors or groups to perceive several conditions. The central government's monitoring and evaluation were perceived by actors or groups as power that creates distrust. Meanwhile, many regulations that influence decision making contribute to the existence of fear. Actors also struggle to implement the reform as complexity inevitably occurs from the influence of central and provincial governments. Rules and policy that were regulated for reform implementation by vertical government should be implemented with compatibility to actors' political interests. Actors or groups then maintain this reform's implementation through managing the harmonising of those interests.

## 7.5.2 **The existence of fear**

Fear was present as actors attempted to implement the required reform. This involved two main type of fearful behaviour: fear of being accused as a subject of corruption and fear of losing power.

Parallel with budgeting and accounting reform, fighting corruption has also become a national agenda issue for Indonesian government; a matter being addressed through the establishment of the KPK or Corruption Eradication Commission. This body operates nationally in order to support transparency and accountability development for the establishment of 'clean' corruption-free government institutions. As a result of this agenda, many state officials from either central or local governments have been prosecuted and imprisoned, as they evidently violated the corruption law during the budget execution process.

The fear of being accused as subjects of corruption was the actors' response when interpreting implementation of the corruption law. This included feeling of afraid to be blamed for corruption law violations and then even more concerned about external monitoring by observer institutions such as press and non-government organisations (NGOs). The feeling started with the perception of blurred definition of corruption, as suggested in the quote below.

> [...]Definitions of corruption act refer to the national regulation, for me, are unclear and sometime contradict with performance achievement. For example, the national case of a former minister of marine has been imprisoned as a corruptor. He has ordered his officer to collect money during budget execution to create off-balance sheet fund with a purpose to provide subsidy for fisherman. From the trial documentation, he never spent the money for personal use except for increasing productivity of fishermen but, at that time, he was suspected of being a corruptor because he enriched other people by using state finance. This is what I mean as the example of unclear corruption law [...] (Head of planning and development agency at RBK)

This feeling was quite similar among observed local government officials who contribute different responses. These included conservative action when operating a budget within grey areas of corruption law interpretation, delaying approval due to doubts about interpreting certain rules, and avoiding being an official who is seen as the responsible person if there is a law violation in budget execution. These responses are reflected in the following quotes.

> [...] I prefer not to execute a budget that might be considered as corruption law violation although the budget itself has been evaluated by province, before enacted, for compliance to state finance regulation [...] (Key personnel of DH at RPM)

> [...] Because of case of tribe when involved actors were caught in the last year incident, members of parliament are reluctant to discuss the proposed additional

> personnel allowance. They told us, they need more explanation about it before decide to give approval […] (Key personnel of the CFO's office at CSM)

This sense of fear was followed by the awareness of actors or groups of external monitoring activities that arise not only from law enforcement officers and the national audit board but also from observer institutions such as the press and non-government organisations (NGOs). The actors' awareness of such observers could be noted in the instances such as providing allocation to support the press, providing indirect privileges for law enforcement officers, and effort to obtain WTP (unqualified audit opinion) by hiring national consultants who have succeeded in assisting reform implementation at other local governments.

Another fearful behaviour was a fear of losing power. This behaviour was mostly highlighted in politicians' perceptions regarding the reform implementation. Politicians feared losing their influence to the civil service. The budgeting and accounting reforms were perceived as very technical and mechanistic, characteristics that might make the reforms difficult to follow and then the legislators worried about getting involved in competing with members of the executive.

> […] As members of parliament, we were officially appointed just for 5 years period. After that, no one can ensure our position in parliament again as it depends on our constituents. This makes it difficult for us to compete with personnel of executives. Member of the executive learn the budgeting and accounting system, including the reform, since they were appointed as government officers. Technically, we are nothing compared to them. […] (Politician of CSM)

> […]I think the reform, regulated by MoHA, was more aligned to executive interest. The reform was very 'accounting minded' and it is very rare for a politician to understand easily the numbers resulting from its procedures […] (Politician of RBK)

All these fears contributed to actors' or groups' intentions to establish organisational stability during implementation of the reform. Performing old norms was the preferred form of stability instrument driven by this behaviour.

### 7.5.3 The presence of distrust

Another causal condition that drives actions to establish stability was distrust; in particular, distrust of the current environment and mutual distrust between actors.

In term of distrusting the current environment, actors or groups assumed that current budgeting and accounting reforms for local government, created by the central government, were not able to remove obstacles from the budgeting process. This distrust was mainly manifested in the form of pessimistic perceptions about behavioural changes of budget formulation and execution, as reflected in the following quotes:

> [...] To be honest, the new budgeting system only provide beneficial impact on performance consciousness without knowing how to formulate appropriate measures [...] (Key personnel of CFO office at RPM)

> [...] Despite it being difficult to prove, I do believe that no one could run the procurement system purely objectively. Some budgets were the product of hidden political agreements with plotting of "*titipan kontraktor pelaksana*" (company which was designated informally outside the process of procurement and must have aligned with certain group of politicians) [...] (Key personnel of CFO office at RBK)

Another current environment-related distrust issue was disbelief in the benefits of the reformed accounting system. Despite the reform being heavily biased towards an accounting perspective, in reality there was not only a lack of accountants in all departments of the organisations observed, but also an evident lack empowerment of accounting personnel in the organisations. This situation is represented in the following quotes.

> [...] Indeed, we need accounting expertise to implement the reform, but our recruitment system may not support this requirement. Accountant personnel were very limited in our organisation. Executives may prefer to develop capacity of the existing personnel, who do not have accounting backgrounds, by training at accounting school or university [...] (Politician of RBK)

The lacks of accountant empowerment in all observed organisations was identified in the CFO office, where none of the CFO Officers was a certificate holding accountant. The CFO of RBK and CSM was a law educated person, whilst the CFO of RPM was educated in business. Moreover, very few personnel inside departments and the CFO's office were either accounting certificate holders or had even been to accounting school.

Another issue causing distrust, when considering managing the harmonisation of interests, was the creation of mutual distrust between actors. As the reform was triggered by the goals of democratisation of government, combined with local decentralisation, rather than any financial crisis, then budgeting and accounting reforms come after political reform. As a result, interaction between actors was more influenced by selfish political considerations, although efficiency and justification were also important.

In this situation, expectation and interest of reform implementation between actors or groups may differ, which in turn may then lead to mutual distrust. In executive interaction, this distrusting behaviour mostly occurs between actors of the EBTF (budgeting task force) and actors of departments (namely the SKPD) as both parties have different expectations, especially in allocation. This distrust is reflected in the following quotes.

> [...] We often get different from what we propose. For instance, we proposed 1 (one) building for extended capacity of hospital to get opportunity to create revenue

generation. EBTF allocated us 2 (two) new buildings but just for poor patients without considering its sustainability and supporting capacity, such as our human resources and equipment [...] (Head of DH at RPM)

[...] As a member of EBTF, if I did not make policy to limit early the budget for each department, I am sure they will give me their entire shopping list and make the budget formulation take more time [...] (CFO of CSM)

Meanwhile, distrust between executives and member of parliaments arise naturally from their different interests. As an illustration, members of the executives intended to secure top leader's priority programmes, in order to maintain allocation of personnel allowances, and to conform to the required reform. On the other hand, members of parliament focused more on allocation of their constituents' budgets, their personal allowances as members of parliament and programmes that have both a strong and positive impact on their constituents.

Apart from these different expectations and interests, mutual distrust arises consistently among actors and groups. Cases include mutual distrust between politicians and the budgeting task forced team (EBTF), and mutual distrust between the EBTF and operational managers. Mutual distrust represented a situation in which strong political interaction occurred when there were conflicting expectations and interests among actors. Managing the harmonising of interests was a response to budgeting reform implementation that was operated in organisations within the Indonesian political context.

### 7.5.4 Struggling with complexity

In the three observed Indonesian local governments, performance-based budgeting was implemented, thereby reflecting actors' perceptions regarding the way to formulate performance measures in the budgetary document. Among the three local governments, difficulties in implementing explicit performance measures were identified consistently by the key interviewees. The local government legislators could act to avoid having explicit performance measures could and did formulate absurd performance measures, crafted undisclosed performance measurement and encountered difficulty in carrying out any proper measurement.

First, practice of performance-based budgeting was perceived technically as a highly regulated procedure; however the actors often used qualitative statements as they might not be comfortable with explicit and quantitative measurements. This qualitative practice was perceived as avoidance of having to subscribe to explicit performance parameters, and so actors often formulated absurd performance measure in practice. Evidence of these is reflected in the following quotes:

[...]We honestly said that we haven't accomplished the strategic plan document of our department....therefore, indicators of performance measure stated in the budget

> proposal, known as "RKA-SKPD", are developed merely based on EBTF guidance, and combined with our prediction. To be honest, the measures are often absurd as the indicators didn't match with the real situation. [...] (Key personnel of DE at RBK).

This practice has also obviously impacted the perceived practice of reporting budget execution that merely focuses on internal purposes rather than being disclosed publicly, as reflected by RBK's actor in the following quote:

> [...]Despite the fact that budget performance measures in our institution are not explicitly declared, we evaluate the result of budget execution based on report of output. The report is made for the manager and only for internal purpose. The next year's budget is often unlinked from this report [...] (Finance manager of DH at RBK).

Despite difficulties in formulating performance measures being identified as a common issue, the described practices above are quite distinct in RPM and CSM, where the actors formulate performance measures in a far more systematic way. Performance measures have been guided in the strategic plan document and the actors kept to the strictly formulated performance measures from that document. However, performance measure formulation seems more difficult when new programmes emerge from outside the RPJMD, but which have to be accommodated, as represented in the following quote:

> [...]All proposed budget activity has to be related to relevant output and outcome measures stated in RPJMD (strategic plan document). If there is an activity that is difficult to relate, then it will be the least priority. In addition, we have to make public accountability report of budget execution every year based on the achievement of targeted measures of RPJMD [...]. (Key personnel of planning and development agency at RPM).

## 7.6  Outcomes

This section presents consequences of strategies relating to the central issue of managing the harmonising of interests. As discussed above, there were four strategies to obtain organisational stability and these strategies contribute to the outcome discussed below. There was a single outcome identified in this study that represented the consequences of all the strategies discussed above. This borrowed concept was that of 'decoupling' that was mostly employed in institutional analysis. Decoupling was conceptualised in this study by the existence of relationships between three categories which emerged from field data. These decoupling categories include: a disconnection between required reform and practice, ritual and ceremonial practice, and improved discourse and substantial refinement of budgetary reform. The following sections also discuss concepts of decoupling relating to each of these categories; particularly including its relation to the strategies and conditions of managing the harmonising of interests.

7.6.1    **Decoupling**

Decoupling was an outcome of the organisational actors' strategies for managing the harmonising of interests that was reflected in the process of required reform implementation. In this study, the existence of disconnection between required reform and practice was identified consistently in actors' interactions during reform implementation. Despite improvement having also been achieved, the practices were intended and implemented in a mostly ritualistic and ceremonial manner. These identified categories reflected the concept of decoupling as a theoretical representation chosen by this researcher to describe responses to the reform.

Generally, decoupling can be highlighted from noting the way actors prepare proposed budget documents in all three observed local governments. For instance, the performance measures of proposed budget documents, such as output, are often unlinked from the intended outcome of their strategic plan. Another illustration: the new form of accounting information, as a result of accounting reforms, was never used for dealing with financial data during the budget preparation process. During the field study, the reasons for actors employing this practice were carefully explored. In all observed organisations, the disconnect between practice and required reform could be seen, as noted in the following quotes.

> [...] It is difficult to literally propose a budget using required performance measures by ministerial decree. What we have done is just to match ordinary allocation with the required measures which may be suitable [...] (Politician of RPM)

> [...] The reform required consistency targeted measures between RPJMD (strategic planning) and budgeting. We try to link these two documents as long as the targeted performance of RPJMD was supported by reliable data [...] (Key personnel of planning and development agency at RBK)

These decoupling arise as the consequences of strategies employed to managing the harmonisation of actors' various interests.

7.6.1.1    **Disconnection between targeted outcome and output**

This decoupling exists between expected outcome, as stated in a strategic plan, and the output formulation of the budget. The rule of performance-based budget, as regulated in National Law 17/2003, and its derivative regulations, utilise the concept of outcome for performance measurement at the organisational level and output at the sub-organisational level. However, those concepts were not comprehensively reflected in the practice and they seem to have been adopted by senior managers and officials as a "ritual" process, instead of developing tight coupled performance measurements. The real actions of actors merely attempt to comply with official forms that must be completed and prepared during the budgetary process. The identified actions represent the actor's compliance to the national regulation, when all of the required

consent forms relevant to the budgetary process, are completed, as presented in the following quotes:

> [...]Like usual...we formulate our budget by filling in the provided form ... later, we would adjust and giving more required information based on EBTF's verification.[...] (Key personnel of revenue office at RBK)

> [...]We informed output measure in our proposed budget...but ... to be honest...we just glance at indicators of performance written in RPJMD ( Strategic Plan) ...as it was developed dominantly by Bappeda ( Planning and Development agency )[...] ( Finance manager of DE at RBK)

### 7.6.1.2 Unlink between initial budget policy and final proposed budget

Despite budget policy being a product of agreement between managers and politicians in the local parliament, the agreement can be breached by both parties during finalisation of the budget. Sometimes, they might 'agree to disagree' in terms of the proposed budget policy and seem as if they are practicing symbolic agreement. Then, they will make a final agreement in the ultimate process of budgeting. The actors reveal that this decoupling often occurs with several salient explanations, as can be seen in the following quotes:

> [...] As members of the legislature, politicians that have been represented in BANGGAR (legislative budgeting task force) always brought new public aspiration after coming back from their last recess time (October) that could change the KUA and PPAS.[...] ( Politician of RPM)

> [...] We adjust KUA and PPAS (budget policy) to solve problems of our friends at the executive...their prediction of fiscal capacity might be problematic and might create idle capacity due to many DAK (allocation-specific funds from central government) and the province's fund allocation might only be identified around November when the budgeting process is nearly at an end. We did agreement of KUA and PPAS as we believe that if initial assumption has changed, thus KUA/PPAS was eligible to be adjusted. [...] (Politician of RBK)

### 7.6.1.3 Unexplainable allocations based on targeted output

Decoupling can also be highlighted through relationships between targeted output and budget allocation, even if it is not explainable. As an illustration, a small targeted output might be allocated with much money, while a big output could only get a small funding allocation. No proper standard spending assessment can be employed in the estimation process to allocate the budget fairly. Managers and members of parliament revealed that similar activities might vary in terms of budget allocation, although producing a similar output. Despite performance-based budgeting (PBB) having been introduced, the actors mostly perceive that budget allocation is often based on previous allocations informed by an incremental approach. The existence of old praxis when the budget was allocated, based on a nomenclature of activities, has contributed a relatively weak relationship between targeted output and its budget allocation. EBTF (budgeting task force of local government) would make decisions about budget

allocation, based on an organisational basis, rather than output basis. Subsequently, EBTF would ask the manager of an agency or department to breakdown the allocation to their targeted outputs. This decoupling seen in the following quotes:

> […]It is difficult to say that we allocate budget to activities or to SKPD (department/agency) based on "standar analysis belanja" (Standard Spending Assessment)....we tried to develop that instrument but we haven't implemented yet. As member of EBTF, I am not sure if that instrument could match with our budget behaviour...Thus, we still allocate refer to previous system by adding certain percentage from previous allocation […] (Head of budget officer at RPM)

> […]To be honest...we will be happy if we have an instrument such as SAB (Standar Analisis Belanja) for verification purposes...but we don't...the executive still uses the old system for allocation. It is difficult for us to verify which one is fair and which is an unfair allocation. As long as can be explained in a meeting by the executive, then we agree on it […] (Politician of CSM)

### 7.6.1.4  Timetable inconsistency

Decoupling can also be highlighted between the time schedule of budgeting steps, based on MoHA regulations and the actual timetable. The first step of the budgeting process, which officially begins in July, is budget policy formulation known as KUA/PPAS. During August to November the steps continue with budget policy operationalisation and verification of the proposed budget. Referring to MoHA regulations, the final budget agreement between executive and legislature (or legislators) is officially scheduled to take place at the end of November. Then, the agreed budget must be conveyed to the relevant provincial governments for evaluation. The enactment of the budget would be conducted no later than the 31st of December. One day later, the 1st of January is the starting date of budget execution.

In practice, most official schedules of budget policy formulation could not be followed by all of the observed local governments. However, unlike RBK, the governments of RPM and CSM could comply with the enactment date, as the budget (case-relevant to this research) should be enacted before 31st December 2012. Actors of RPM and CSM perceived that strained interactions inevitably occurred during the process of budgeting and then such conflicts impacted on discrepancies with official schedules. This decoupling in both local governments can be followed in the following quotes:

> […] Executive and legislature agree to conform to the official enactment date (31st December) even though we could not comply with other budgeting timetables. […](Head of budget officer at RPM)

> […]We will be monitored and evaluated by the provincial government regarding our budget enactment...The provincial government will publish to the public either for timely or late enactment of APBD (local government budget)....Every late enactment could be punished by either the provincial and/or central government […] (Key personnel of planning and development agency at CSM)

Despite the process of budgeting not being in accordance with the official timetable, the actors of RPM and CSM consistently enacted the budget as local legislation no later than the 31st December. They believed conforming to that official schedule-of-

enactment date would ensure not only time sufficiency for budget execution but also the ceremonials associated with the act of compliance. If the budget is legislated later than the 31st of December, then all of procurement cannot be set up. Budget execution will be definitely influenced by the time of enactment. The longer enactment is delayed then the longer waiting time will be needed for executing the budget. If that lateness occurs, managers and members of parliament believe that the targeted performance of the budget will be useless, when procurement cannot be performed in a timely manner. The actors also perceived that it is better to legislate the budget on time, rather than be late in its enactment, even if the budget is not properly prepared, due to the chance of receiving a potential penalty from either the central and/or provincial government. The local actors often convey the agreed budget (agreement between executive and legislative bodies) to the provincial government at almost the end of December for evaluation. They hope the legislated budget could be dated officially at 31st of December, although the result of the province's formal evaluation might be still be in the process of construction. Ceremonial enactment is important for public recognition and for preparing budget execution steps, such as procurement preparation. Explanations of decoupling are contained in following quotes:

> [...] We can be blamed if we take too long for budget approval...No choice ...budget should be legislated at the end of December and published to the public. If not...procurement will be late to be announced then surely that will impact to budget execution. Targeted performance will be useless if budget execution cannot be performed properly. [...] (Politician of RPM)

> [...] This year ...after case of corruption was revealed by KPK (anti-corruption commission) when Walikota (Major), through Regional Secretary, was prejudiced to bribe several politicians of DPRD (local parliament) for budget approval reasons....Currently, either member of EBTF (Budgeting Task Force of local government) or member of BANGGAR (Local Parliament Task Force of Budgeting) feel inconvenienced in budget discussion due to that case. However, whatever will be...we keep committed to enact the budget no later than 31st of December as regulated by MoHA. [..] (Politician of CSM)

However, RBK is quite different from RPM and CSM in that their budget is always late to be legislated. Since the initial reform, RBK has never managed to legislate their budget on or before the 31st December. The executive managers and members of the local parliament revealed the wish to conform to the enactment date of MoHA regulation; a target that has been attempted every year, but always unsuccessfully. The enactment of RBK's budget for the year 2013 was conducted at the end of March 2013, rather than by December 31$^{st}$, 2012.

### 7.6.1.5  Decoupling from the reformed system

Decoupling can also be noted between the budget accounts and the financial reporting accounts. By design, this decoupling occurs due to the national regulations having developed different approaches between budgeting systems and financial reporting.

The budgeting account was developed based on different groupings of economic factors compared to the financial reporting account. The budgeting account was established by MoHA while the financial reporting account was developed by the accounting standards board. Managers responded to the unlinked account by initially employing the budget account for accounting purposes. Then, they would convert the account to the financial reporting account format when presenting the report. This decoupling has been perceived by managers as a product of rivalry between MoHA and the accounting standards board. In fact, both products of the accounting bodies are legislated through government regulations. This rivalry has contributed to additional complexities within the system, when the actors employ two different account paradigms for accounting purposes. The actors' perception about this decoupling is presented in the following quotes:

> [...]I don't understand why central government could not solve this contradictory regulation...As victim of the regulation... we have to implement a more complex accounting system. Start with budgeting account when recording the transaction of budget execution, and then convert the account for reporting purposes. [...] (Key personnel of CFO's office at CSM)

> [...] As far as I know, we just follow the regulation...because BPK (National Audit Board) would audit based on the regulation. It is more difficult to implement the change with various concepts as stated in regulations, but there is no choice for us. We have to employ two systems [...] (Key personnel of CFO's office at RPM)

## 7.7 Framework for managing the harmonising of interests

The central phenomenon – managing the harmonising of interests - represents actions of involved actors or groups that frequently occur during the implementation of local governments' budgetary reform. As the nature of budgeting practice is a political process among actors, interest harmonisation is always present during implementation of the reform. Hence, the way to implement the reform should be compatible with the process of interest harmonisation, in order to maintain organisational stability. Managing the harmonising of interests becomes a salient concept as the reform's implementation might never be performed seamlessly without successfully obtaining organisational stability. This perceived action was termed 'managing the harmonising of interests'.

The ways to implement the reform, employed by actors, were investigated in three observed existing routines: practicing old norms in the new budgeting system, managing flexibility and preferring comfortable conditions. As discussed previously, these ways need to be compatible with the environmental context in which the reform has been performed. In the context of this study, the process of 'interest harmonisation' represents actors' interactions when implementing the required reform within a strong political environment. This process involves accommodating, bargaining and transactional negotiation, and holding a formal meeting as a legitimate

forum. Interest harmonisation needs to be maintained in order to obtain organisational stability during the implementation of budgetary reform.

Managing the harmonising of interests occurs when the local government budgetary reform has been implemented in the stipulated period and driven by the requirements of the new political system.  In this context, four conditions have been taken into account as causes and drivers of the actors managing the harmonising of interests. First, influences of central government and provincial government have indirectly contributed to managing the harmonising of interests and the actions taken to achieve this goal. With its power, central government can legislate, monitor, evaluate and influence allocation through the controlling role of the provincial government. This top-down model contributes to the complexity that make actors struggle to implement the required reform. This is the reason why actors still employ old norms in the new system. Moreover, national regulations published by the central government also contribute to the presence of distrust and the existence of fear. As a result, actors and/or groups prefer to implement the reform in the way that could manage any diversity of interests.  The presence of distrust related to feelings of uncertainty associated with flexibility of budgeting, whilst a sense of fear contributed to creating traditionally preferred comfortable conditions.

There were four strategies employed by actors and/or groups for managing the harmonisation of interests: obtaining conformity for managing public legitimacy, managing trust relationships, playing power games, and using procedural compliance as an internal control mechanism. Decoupling is the outcome of strategies for managing the harmonising of interests.

The following framework, presented in figure 7.2, provides summary all of discussed above.

Figure 7. 2 Framework the substantive grounded theory – managing the harmonising of interests
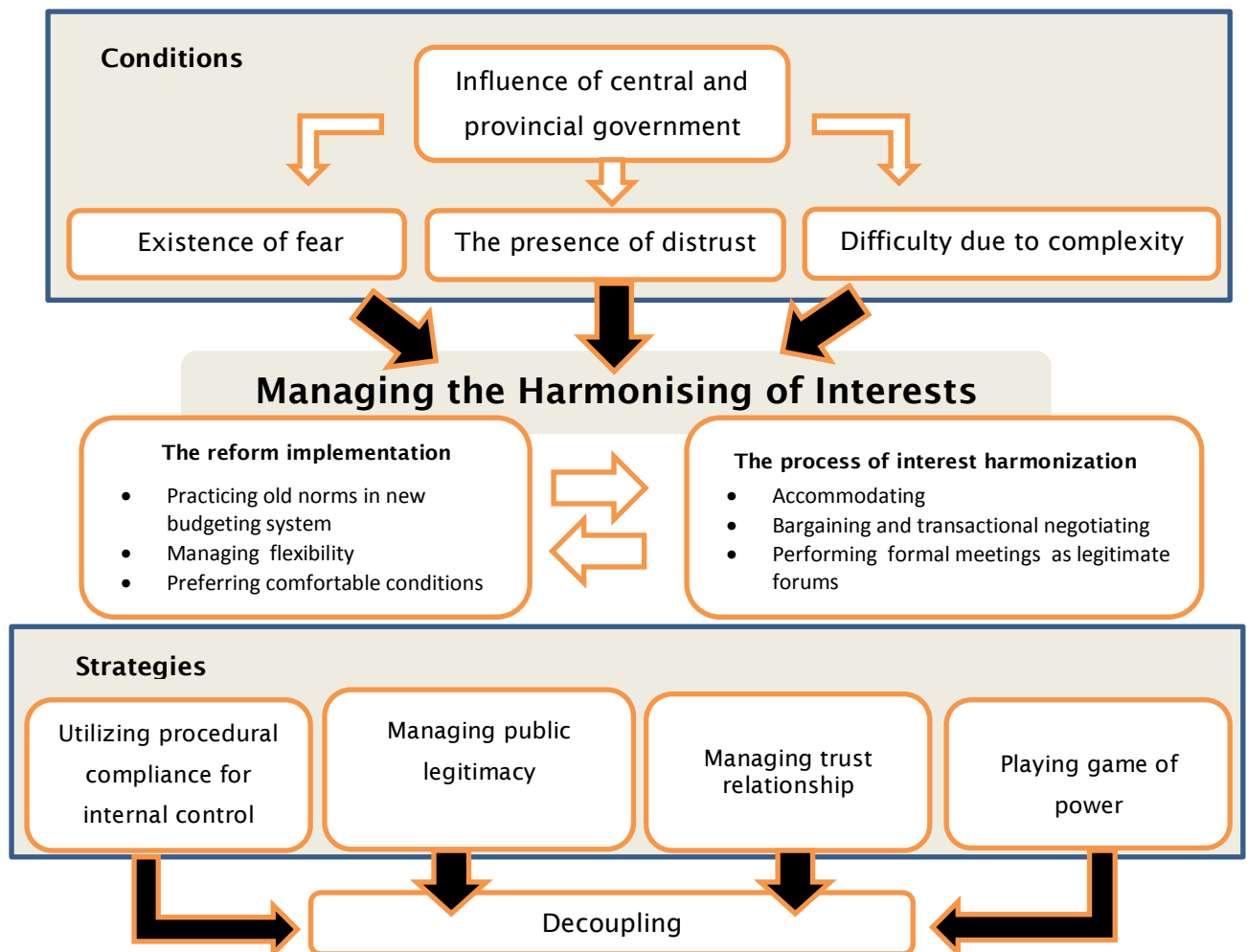


## 7.8   Summary

This chapter focused on the presentation of selective coding as the final coding process in grounded theory. Referring to the paradigm of Corbin and Strauss (2008), this chapter began with an overview of the coding process to develop substantive grounded theory. The paradigm guided this chapter to explain the central phenomenon, and then the conditions that lead to those phenomenon. The central phenomenon  managing the harmonising of interest reflects the particular way of organisational actors in implementing budgeting reform at the Indonesian local governments. The central phenomenon consist of two interconnected actions that are the actions related to the reform implementation and the way of actors in harmonising the emergent interests. The reform implementation focus on how executive actors implement the reform. At the same time, actors or groups attempt to harmonise their various interest through a set of noted budgetary activities. This effort of interests harmonisation was highlighted in the interaction between executives' actors and member of parliament. Next, the central phenomenon was explained as reaction to

conditions that relate to the perception of actors in interpreting the influence of central and provincial government. This actors' perception lead to other conditions that directly contribute to the creation of central phenomenon. The existence of fear, the presence of distrust and difficulty due to complexity are the conditions which related to the influence of central and provincial government. Moreover, the chapter also discussed strategies relating to the central phenomena that were to lead to managing a harmonizing of interests, the conditions resulting in the strategies, and the consequences of such strategies. In term of the strategies, rensponse of organisational actors regarding managing the harmonisation of interests include four actions. The responses are utilizing procedural compliance for internal control, managing public legitimacy, managing trust relationship, and playing game of power. All of this actors' responses for the central pheonomenon could be employed to explain why decoupling exist in the context of the reform implementation. Finally, the chapter illustrated the framework used for managing the harmonizing of interests to summarize all that has been discussed previously. However, the theoretical framework explained in this chapter merely present what is happening the context of study without any intention to make generalisation of findings. Therefore, the grounded theory study develop this substantive theory toward the formal theory . This effort was developed by researcher to begin the generalisation of the emergent theory which depart from particular context of the study. The formal theory is a theory that may be used in other context. Chapter 8 advances this substantive grounded theory towards a more formal theory.

# Chapter 8

# Developing a Framework toward Formal Grounded Theory

## 8.1 Introduction

This chapter discusses development of the substantive grounded theory toward the formal grounded theory. This chapter was developed, based on the argument that the substantive theory is a strategic link in the formulation of grounded formal theory (Glaser & Strauss, 1967, p. 67). Following the previous grounded theorists, the substantive theory generated from data allows the emergence of theoretical interpretations relevant to the context of the research, that may not be captured by other research strategies (Strauss, 1987; Goddard, 2004; Lye et al., 2005). In this study, institutional logics theory was employed as general theory to develop validity of the substantive grounded theory: managing the harmonising of interests. Particularly, the chapter provides an explanation of the relationship of the substantive theory with the co-existence of competing institutional logics as the researcher begin to generalise the substantive theory toward multi-area theory.

The chapter is presented in the following order. The next section discusses an overview toward formal theory to clarify the objective of advanced discussion of the substantive grounded theory. The third section presents the reason for choosing institutional logics as a frame of reference. Subsequently, the fourth section compares the substantive grounded theory with the institutional logics theory and the other findings that are relevant to the substantive theory. The discussions basically try to relate the substantive theory to the conceptualising institutional change. As a summary, the fifth section proposes a framework toward formal grounded theory conceptualising the institutional change in the context of Indonesian local government budgeting reform.

## 8.2 An Overview toward the formal grounded theory

Referring to the quotation above, grounded theory might consist of two general types: substantive and formal theory (Glaser and Strauss, 1967). Substantive grounded theory is a theory relating to one particular area. It consists of the concepts that researchers develop, based on data focusing on one area of study. Differing from formal theory, substantive theory may limit its application to other contexts. Meanwhile, formal

grounded theory departs from the idea of generalisation and transferability of findings that are possible to be adopted to other contexts or areas of research. Formal theory can be generated either directly from data or depart from substantive theory.  Locke (2001) suggests substantive theory is closely linked to the practice domain and is prior to formal theory.

In the view of Glaser & Strauss (1967), substantive theory can be advanced toward formal theory by working empirically to develop conceptual categories at higher levels of abstraction and generality. However, grounded theorists do not always finish with a formal theory. They may stay principally at the substantive level and produce an adequate start toward formal theory. Glaser & Strauss (1967) predicted several reasons for this avoidance, regarding the generation of formal grounded theory. Grounded theorists may conservatively claim that their findings could be generalised and may be simply applied in different contexts or other substantive areas. They must gather and comprehend a great amount of data to compare and contrast with other substantive areas before claiming any generalisation of findings.  Therefore, they often limit themselves to their own areas of specialisation, although facing the pressure to generalise.

Essentially, formal grounded theory about the general implication of a core phenomenon generated from a substantive theory (Glaser, 2007). Thus, formal grounded theory and substantive grounded theory are thoroughly tied together. Formal grounded theory is simply the conceptual extension of the general implication of core phenomenon, explained in the substantive theory. Conceptual extensions of substantive theory can be attempted initially through discussion with general theory considered to fit with the substantive theory. The discussion includes comparison with other substantive areas, as Glaser (2007) highlighted:

> […] Formal grounded theory emerges as natural if a researcher of a substantive grounded theory continues his research into other studies in the same or other substantive areas. The method set forth will help this beginning generation of FGT.The method will also jump start the stall on formal theorizing among those who are shy, but should be generating formal grounded theory […] (p.111)

If one departs from a discussion of formal theory generation, this grounded theory study avoids any claim that formal theory has been generated but more offers support to the early effort toward generating formal grounded theory. The core category of substantive theory, that is managing the harmonising of interests, was challenged by, and matched against, the existing theories of institutional change. The literature includes neo institutional theory, and particularly the existence of competing institutional logics.

## 8.3   The existence of multiple and competing institutional logics

The substantive theory: 'managing the harmonising of interests' was a response of the causal factors associated with the existence of various interests among organisational actors during the implementation of the budgetary reform. In the new institutional perspective, the multiple interests of organisational actors can result from the pressures of the institutional environment. Conceptually, the institutional pressures may come from either interplay between external and internal factors (Greenwood and Hinings, 1996; Järvinen, 2006; Rautiainen and Järvenpää, 2012) or merely looking at internal process inside organisations (Lounsbury, 2007, 2008; Thornton et al., 2012). This section focuses on discussion of the internal factors by relating the actors' interests to the existence of multiple and competing institutional logics.

The multiple interests emerge in the field, as the actors or groups hold different institutional logics. Thornton et al. (2012, p.86) argue that individuals have multiple social identities that constrain and guide cognition and social interaction. Institutional logics provide an organising principle for a field, as defined by Friedland and Alford (1991), which might consist of more than one logics (Thornton and Ocasio, 1999). On the other words, the logics are the basis of taken-for-granted rules guiding behaviour, referring to belief systems and values that predominate in the organisational field (Scott, 2014). Actors may be guided by  referring to their preference logic; and every actor may be more comfortable with particular logics as bases for action. Hence, individual or group choices, regarding the change implementation, can be linked to the notion of institutional logics. In the context of Indonesia's local government budgeting reform, the study highlights three multiple logics identified in the organisational field used to explain the existence of various interests. The logics include one old logic and two new logics identified in the field, named as the new managerial and the democratic logics.

The old logic relates to legalistic bureaucracy,  which can be conceptually named as old administration logic. The new logics come from a local autonomy perspective and new managerial perspective of organisation usedd to challenge the old logics. These multiple logics were identified in the archival documents of national rules and regulations coercively applied in the local governments. The identified old administration logic and new managerial logic refer to the separation of institutional logics conceptualised by Meyer & Hammerschmid (2006), in the Austrian public sector, that revealed the logic of "legalistic-bureaucratic" and "managerial" respectively. However, this study differs from the Austrian public sector and other institutionalist findings that there is another new logic accompanying the managerial logic. In this context of study, democratic logic was also constrained in the field during implementation of performance based budgeting.

The local autonomy perspective arising from democratic logics guide behaviour of politicians or other actors who have political interests. For instance, political actors are strongly influenced by their consideration of legitimacy relate to public support, as reflected in the following quote taken from the national law.

> […] The execution of autonomy should consider public interest and aspiration […]
> (Explanation section of *National law No. 32/2004*)

As well as legitimacy, political actors' values relate to their social identity as public representatives who are responsible for creating public policy for providing public services and empowering local government in increasing local welfare. In addition, the basis attention of political actors is to maintain voters' or constituents' support (National law No. 32/2004). The practice of budget prioritisation, such as the allocation of grant and social aid, is the evidence to illustrate the existence of democratic or local autonomous logics.

Meanwhile, new managerial logics, such as the perspective of the new state finance, the accounting reform, and organisational structure policy, mostly control executives' behaviour. The executive actors emphasise their legitimacy being focused on performance measurement implementation in the budgetary practice, as influenced by the national law reflected in the following quote.

> […] The implementation of the new system of state finance should be able to create
> Integration of the performance accountability system into the new budgeting system […]
> (Explanation section of N*ational law No. 17/2003* )

Therefore, strengthening responsibility centres, together with the presentation of adequate financial reporting of each centre, are encouraged as an important values among the organisational actors. In addition, executive actors' basis of attention is the degree of conformity to the standardised performance measures, and the accounting standards, regulated by central government.

The introduction of the new budgeting system that brings the two new logics was thus a direct challenge to the previous old administrative logic. Conceptually, institutional change is usually associated with a new logic replacing the dominance of the old logic, and which will then set a new belief system that will guide behaviour in the field (Thornton and Ocasio, 1999; Hensmans, 2003; Reay and Hinings, 2005; Lounsbury, 2008; Reay and Hinings, 2009; van Gestel and Hillebrand, 2011; Thornton et al., 2012). As pointed out by Reay and Hinings (2005, 2009), the new logic has co-existed with the old logic since the initial reform in 1999. However, differing from the

environmental contexts of the previous studies, competing logics also emerge from the two new logics: the  logic of new management and of democratic logic.

Although the performance based budgeting system is close to new managerial logic, the budgeting reform has been conducted to replace the old administrative logics such as traditional or line item budgeting and single entry bookkeeping. The new budgeting system was constrained to the field together with democratic logic when political interests also influence the actors' interpretations regarding the new performance budgeting system. As a result, the coexistence of multiple logics in the field are taken into account as the source of competing interests, observed in interaction either between executives and legislators or among executives.

In short, logics are a salient theoretical construct for understanding institutional change. The coexistence of competing institutional logics of different actors within an organisational field has characterised institutional change. Sources and topics from from previous studies include: the nature of radical change within the health care organisational field (Reay & Hinings, 2005), collaboration as result of the coexistence of competing institutional logics (Reay & Hinings, 2009), the tensions and interplay between competing institutional logics  (Swan et al., 2010), decoupling of formal rules and routines if there are conflicting logics (Rautiainen, 2010), the coexistence of two competing structural logics between development logic and cultural-political logic (Jayasinghe and Wickramasinghe, 2011). Similar to previous research in substantive theory: managing the harmonising of interests was theoretically related to the coexistence of competing institutional logics.

## 8.4   The presence of conflicting institutional demands

Despite internal factors discussed in the previous section, the existence of multiple interests as the causal condition of managing the harmonising of interests could be also linked to the interplay between external and internal institutional pressures. This perspective is consistent with institutionalist scholars who conceptualise institutional pressures forming a set of beliefs of organisational actors associated with external and internal tensions (Greenwood and Hinings, 1996; Järvinen, 2006; Rautiainen and Järvenpää, 2012).  Particularly, Pache and Santos (2010) use the term 'institutional demands' to represent both institutional pressures.

Inter-penetration between external and internal pressures may determine the organisational experience with the institutional demands. In addition, organisations are viewed as complex entities composed of various groups promoting different values, goals, and interests (Greenwood and Hinings, 1996). Thus, conflicting institutional demands are highly likely to occur in the organisational reforms as

multiple actors may influence a range of actions through different pressures. The substantive grounded theory explains a situation when the organisations experience conflicting institutional demands, represented by competing interests between external and internal actors.

The situation of conflicting institutional demands was highlighted in the implementation of the performance based budgeting system in Indonesian local governments. Few actors have enough power to clearly dominate the field on their own and resolve conflict; however they have enough power to constrain organisations to take their demands into account. As an instance, local governments' budgets are officially monitored and evaluated by central government through the provinces; whereas the national law and regulations state that local governments are autonomous institutions. The organisational context seems similar to organisations that are embedded in moderately centralised fields, and are thus likely to face enduring conflicting institutional demands (Reay and Hinings, 2009; Pache and Santos, 2010).

External powerful actors may bring pressures that contradict with internal powerful actors or vice versa. The conflicting demands emerge from the interactions between external and internal pressures. Fiss & Zajac (2004) explained conflict about prioritisation of shareholder versus stakeholder value; Westphal and Zajac (2001) focused on disputes between stock market analysts representing investors and management professional about achieving profit generation; Purdy & Gray (2009) investigated the U.S. justice system highlight the goal to enhance efficiency versus the realisation of democratic objective by handling large volumes of cases.

As to observation of 'the fields' central government, through the role of the provincial governments, could officially suspend the agreement between executives and legislators if the planned performance and the budget become disconnected with a national targeted performance or a province's policy.  This practice seems paradoxical with spirit of the new decentralisation system encouraging local aspirations. In fact, the policy of new decentralisation has brought about opportunities for Indonesia's local governments to manage local and regional development according their own aspirations (Firman, 2009).

In summary, the substantive grounded theory explains a situation when the organisations experience conflicting institutional demands represented by competing interests between external and internal actors. This situation was highlighted in the implementation of performance-based budgeting system in Indonesian local governments.

## 8.5   The framework toward formal grounded theory

As discussed in the two previous sections, the causal conditions of substantive grounded theory: 'managing the harmonising of interests' are linked both to the existence of competing institutional logic and to the presence of conflicting institutional demands. These two perspectives are derived from the general theory of 'new institutional sociology', particularly in explaining the process of institutional change within a complex environment, with the existence of multiple and conflicting interests. The substantive theory drawn from data is advanced into a framework that can be related to the general theory and findings of other relevant empirical works. This section presents the framework of managing the harmonising of interests in explaining the process of institutional change associated with the context of the study. The theoretical framework is presented in the figure 8.1below.

Figure 8. 1 The framework  toward formal grounded theory
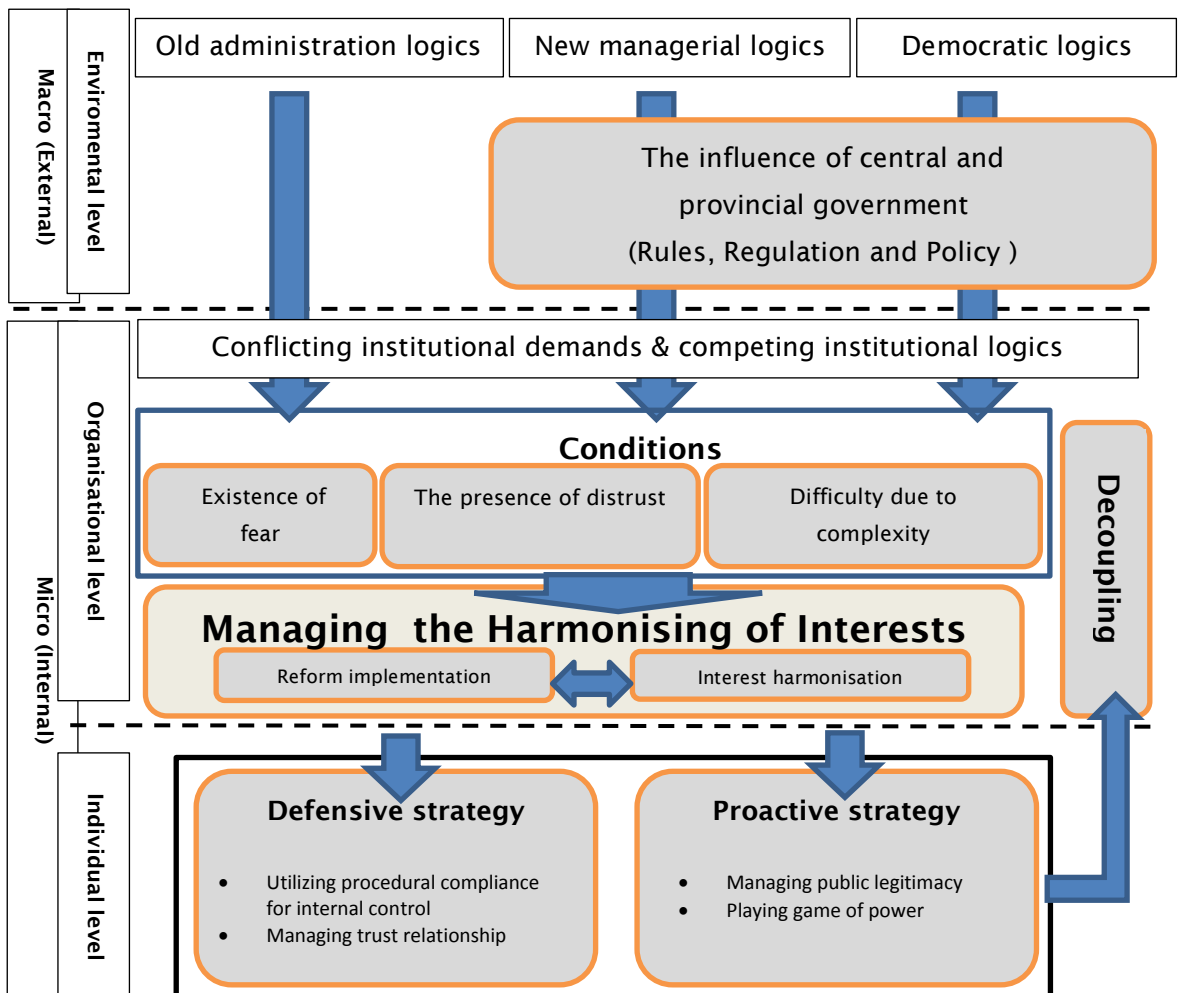


The theoretical framework toward formal grounded theory displayed in figure 8.1 is better than the version of substantive grounded theory: 'managing the harmonising of

interests' in conceptualising the institutional change connected with several arguments.

Figure 8.1 explains the substantive theory: 'managing the harmonising of interest' by looking at the conditions of the context of the study related both to the institutional logic perspective and the interplay between various institutional pressures. In this framework, multiple levels of analysis including environmental, organisational and individual levels can be utilised to accompany the analysis of both macro (external) and micro (internal) factors. Causal conditions are discussed either by looking at the inter-penetration between external and internal pressures, as presented previously in section 8.4, or by focusing on internal processes through relating to the macro and micro levels of institutional logics, as explained in the section 8.3. Therefore, the theoretical framework presented in figure 8.1 explains why the substantive theory happens by emphasising the presence of conflicting institutional demands and the co-existence of competing institutional logics.

Next, the presented framework discusses more focus on the micro process of institutional change to explain how such a response of managing the harmonising of interests happens. The causal conditions are explained at the organisational level, resulting from analysis of environmental conditions emphasising the presence of conflicting institutional demands and the co-existence of competing institutional logics. The central phenomenon: 'managing the harmonising of interests' is a response to such conditions at the organisational level. Therefore, the framework provides more valuable explanation, through comparison discussion with the previous findings, of the research conceptualising the process of institutional change.

In addition, the framework also provides an explanation of the interplay between macro and micro environmental level. Multiple logics of society or macro level environmental conditions are clearly articulated with the behaviours at the organisational level. The various interests and competing logics derived from society contribute to the creation of the reform's disadvantages inside organisations. The substantive theory describes the conditions of the central phenomenon involving disadvantages that arise from macro conditions. All three observed local governments manage the harmonisation of their actors' interests due to the existence of fear, the presence of distrust and difficulties caused by issues associated with complexity. Interplay between reform implementation and interest harmonisation is the main characteristic of institutional change in the context of the study.

Finally, there are two perspectives in interpreting the central phenomenon that can be utilised to understand decoupling as a consequence of the central phenomenon. As the

organisational level behaviour, decoupling arises from both defensive and proactive strategies. The former is consistent with the motive of decoupling that deals internally with institutional pressures for conformity and explains conflicts between legitimacy and technical efficiency, while the later illustrates something akin to impression management. In addition, both strategies are individual level actions resulting from organisational behaviours.

The detailed discussions of the framework are presented in the following section that relates the substantive grounded theory to the conceptualising of institutional change.

## 8.6 The substantive grounded theory and conceptualising institutional change

This section aims to provide more detailed discussions that compare and contrast the substantive grounded theory and neo-institutional theory explaining institutional change. The discussions mainly focus on similarities and differences between results of this grounded theory study and findings from other substantive areas. The section consists of several discussions. Firstly, the section discusses managing the harmonising of interests and institutional change as a response to conflicting institutional logics. Secondly, the discussion is followed by the conditions of central phenomenon. Thirdly, the section relates action, interaction and strategies, described in the substantive theory, with previous academic work. The last section examines the concept of decoupling through the lense of previous literature.

### 8.6.1 Managing the harmonising of interests and institutional change

The substantive grounded theory: 'managing the harmonising of interests' reflects the response of organisational actors in situations where conflicting institutional logics are coexistent. This finding conceptualises the institutional change in the context of Indonesian local government during the implementation of performance budgeting as the new budgeting system. The main findings primarily theorise and explain the process of institutional change instead of the situation explaining the stability of change (Lounsbury, 2008; Purdy & Gray, 2009; Reay & Hinings, 2009; ter Bogt & Scapens, 2009; van Gestel & Hillebrand, 2011). This substantive grounded theory is connected theoretically to the development of institutional theory in explaining institutional change, as reflected in the following discussion.

Managing the harmonising of interests represent the particular response of multiple and conflicting institutional logics, when the new logics (new managerial logic and democratic logic) exert implementation forces on the performance budgeting system in the field. This findings is similar to part of previous theoretical development

regarding organisational strategic responses that have been associated with multiple and conflicting institutional pressures (Oliver, 1991; Kraatz & Block, 2008). The response can be likened as both compromise and an avoidance strategy. Managing the harmonising of interests explain the role of intra organisational dynamics in resolving conflict in institutional pressures (Hinings, 1996; Greenwood et al., 2011). The substantive grounded theory also provides an explanation of conditions under which a strategic response, that is: managing the harmonising of interests, is being performed. In this study, the national rules and regulations, and the province's policies represent conflicting institutional pressures that contribute to three disadvantages perceived by actors: the existence of fear, presence of distrust, and struggles due to complexity. These three disadvantages are the result of actors' interpretations of conflicting institutional demands.

Next, managing the harmonising of interests focuses not only on the coexistence of conflicting institutional demands but also, more specifically, on the phenomenon of how actors manage multiple and competing interests in implementing the new budgeting system. The phenomenon comprises of two actions: reform implementation and harmonisation of interests. Reform implementation is performed through old norms set in a new system, with flexibility and comfortable conditions. Old norms such as incremental allocation, line-item based allocation, short term orientation of planning, and the previous year's performance evaluation based on cash realisation, all relate to the old motives of actors. This finding also supports studies which concluded that older logics may still exist in the introduction of new budgetary practice (Ezzamel et al., 2012). Flexibility that employs elastic strategies, hidden allowances, qualitative measures and preferring comfortable conditions that relate to actors' feelings of safety, are the preconditions for the process of interest harmonisation. The coexistence of competing institutional logics in implementing the new budgeting system is managed through the harmonising of interests. Managing the harmonising of interests is similar to other recent substantive areas of institutional change, such as the concept of collaboration in managing the rivalry of competing institutional logics (Reay & Hinings, 2009) , internal dynamics of organisational response to conflicting institutional demands (Pache & Santos, 2010), and the impact of multiple logics upon budgetary practice (Ezzamel et al., 2012).

### 8.6.2 Conditions

The reform has been conducted coercively through implementation of the national rules and regulations published by Indonesia's central government. In addition, the required reform was also introduced through the province's policies for the local

governments, having been interpreted from the national regulations. However, as discussed in the previous section, the influence of the national regulations and provincial policy for the implementation of the new budgeting system, may bring competing logics. The competing logics embedded in the institutional or society level, drive actors, with various and conflicting interests, at the organisational level.

The findings of this study argue that the disadvantages of the reform arise from the coexistence of conflicting interests being driven by competing institutional logics. Compared to the previous research of NPM and accounting reforms in public sector organisations, the disadvantages were often viewed as obstacles experiencing in the reform implementation. The substantive theory: 'managing the harmonising of interests' represents the reactions to the identified conditions. Those conditions, as already presented above, are: the presence of distrust, existence of fear and struggles due to complexity.

First, the presence of distrust can be highlighted as similar to the findings of research into NPM reform, such as: Robbins (2007) in the context of Irish hospitals and Macinati (2010) in two Italian public hospitals. The perceptions of actors in this current study emphasise the distrust between actors and distrust of the reform environment. Similarly, obstacles to the implementation of NPM in an Irish hospital emerge from the lack of trust between management and clinicians (Robbins, 2007). Budget was perceived, as an example of distrust of the reform environment, to be unable to influence clinical decisions or behaviour as actors persisted to rely on the traditional clinical system (Macinati, 2010). Comparable findings can also be noted in the area of public sector accounting reform implementation. For instance, actors who are involve during the reform process were never confident regarding the usefulness of accrual information in the context of Greek universities (Miller et al., 2001). As an instance of distrust of the reform environment, obstacles to public sector accounting reform in Indonesia come from human resource problems, the in-place recruitment system and inadequate remuneration of public service officers (Harun, 2007).

Second, the existence of fear, experienced by actors, was also similarly noticed in other areas of organisational reform research. Fear of losing power is consistent to the case of policy change in South Africa, when white officers experienced the fear of losing their post, that was interpreted by the actors as similar to losing their power to influence others (Collier, 2004). Moreover, the combination of fear and commitment to implement the required reform may arise as practical consciousness when power and legitimacy were taken into account concurrently by organisational actors (Clegg & Gordon, 2012). Research into accounting and budgetary change has highlighted the existence of fear. Fear of losing power was also identified in the study of reform (Caccia & Steccolini, 2006; Shah & Shen, 2007). The accounting changes which are

introduced in the organisation cause fear and anxiety, representing a threat to old habits, values, rules and routines in particular, and personal security in general (Caccia and Steccolini, 2006). Shah & Shen (2007) conclude that legislators may resist performance measurement due to the fear of shifting power to the executive's authority. Still relevant to avoiding loss of power, fear of managers to acquire negative reputations from evaluation and causing organisational friction is another finding (Arnaboldi & Palermo, 2011).

Despite fear of losing power, the existence of fear includes the fear of being accused of corruption, coupled with the fear to existing in an uncertain and changing environment. The fear to be accused of corruption reflects the findings of Downs (1960) and Coad & Cullen (2006). The role of the government budget may become smaller than its expected benefits, as result of the existence of the fear of being accused of wasting public funds (Downs, 1960). As a result, performance oriented actors will avoid performing certain routines if the actor risks being placed in a position of apparent failure (Coad & Cullen, 2006). In terms of the fear of an uncertain environment, Guess (2005) noted that policy makers would like to eliminate or reduce uncertainty before implementing any organisational reforms.

Third, struggle due to complexity is another disadvantage perceived by actors. The disadvantage was perceived as difficulty with the requirement for performance based budgeting implementation. The findings support Miller et al. (2001) who provided an ananalysis of this difficulty. In this grounded theory study, the difficulties included a struggle to formulate explicit measures, efforts for matching allocation with given authority, and difficulty in the implementation of national guidance. The first two difficulties are consistent with the findings that describethe difficulty of measuring achievements, especially in the qualitative and non-financial aspects of performance (Lee 2008; Tooley et al., 2010; Siddiquee, 2010). For example, the evidence of slow reform due to the difficulty to establish a causal link between inputs and outputs during the implementation of performance management in the Malaysian public sector (Siddiquee, 2010). In addition, the environmental context also relates to the difficulties associated with the required reform implementation. For instance, technical obstacles in conducting performance analysis occur parallel with problems related to obtaining support from legislatures and citizens (Wang, 2000).

Disadvantages of the reform arise from conflicting interests of organisational actors that were driven by the coexistence of rival institutional logics. Examples of these rivalries include the logic of autonomy versus the logic of new managerial policies, thereby creating conflicting focused interests between politicians and manager of

departments, between members of EBTF and staff of departments, between managers and treasury. Therefore, the substantive theory: 'managing the harmonising of interests' describes the responses of actors at the organisational level to manage conflicting logics during implementation of the new budgeting system. The following section explains actions and interactions of the substantive grounded theory.

### 8.6.3 Actions, interactions and strategies of the substantive grounded theory

As discussed in the previous chapter, the study identified that managing the harmonising of interests consists of two intertwined actions: the reform implementation and the process of interest harmonisation. These two actions are discussed in this section, informed by the extant theoretical concept and previous academic work. In a similar way, the substantive theory also explains several interactions of the central phenomenon that can be grouped into defensive and proactive strategies.

### 8.6.3.1 The actions of reform implementation

First, the reform implementation of practicing old norms residing in a new budgeting reform is consistent with a tentative proposition conceptualised by Ezzamel et al.(2012) as presented in the following quote:

> [...] Organisational actors disadvantaged by the introduction of new budgetary practice will align interpretation of budgeting with older logics [...] (p.301)

The study highlighted that traditional incremental and line-item budgeting approaches still actively existed although, in reality, the ongoing old practice was covered with the instruments of the performance based budgeting system. As an example, actors' commitments to implement performance based budgeting was noted in the form of presenting performance indicators that included information about input, output and outcome of proposed activities. However, budget is often allocated for activities or programmes which are difficult to measure relative to performance. These kinds of activities usually relate to the routine budgets that organisational actors are not pleased to remove from their 'must keep' lists. Organisational actors may fear losing the allocations that are addressed to maintain the fulfilment of their interests, if certain activities are removed from the list. However, organisational actors may declare that they are implementing performance based budgeting, wheras they are actually allocating the budget based on the names of activities matched with legitimate performance indicators.

Referring to the illustrations above, it would appear the emergent disadvantages due to rivalry between logics clearly have a relationship with the ongoing practice of old

logic in the implementation of the reform. This argument is consistent with the conceptual prediction of Reay & Hinings (2009) reflected in the quote below.

> […] Rivalry between logics appears to be resolved through the creation and recognition of a new dominant logic at the field level, but closer examination reveals that the old logic continues to exist and guide behaviour in less obvious ways […] (p.632)

A similar argument can be seen in the work of Townley (2002) and Khan et al. (2007) that reveal the existence of old logics present in the reform implementation

Second, other actions of reform implementation noted in the substantive theory are managing flexibility and preferring comfortable conditions.  Managing flexibility was also previously noticed in the practice of performance budget both in the private and public sector context. Both contexts practiced flexibility as an approach to deal with implementation of performance management (See Wickramasinghe et al., 2004; Rivenbark, 2008; Frow et al., 2010). Thus, the actions of managing flexibility  were performed as actions of preferring comfortable conditions.

Learning from the private sector, flexibility is required in order to facilitate the process of "continuous budgeting"; to be able to reach the pre-set target, managers can engage in budget revisions and reallocation of resources when circumstances require a dynamic policy (Frow et al., 2010). In the case of the public sector, flexibility can be treated either as an approach or as the goal. In the form of approach, departmental flexibility was utilised in the context of local government during implementing performance budgeting, when department heads commit with accountability in return for flexibility  (Rivenbark, 2008). While, Østergren (2009) found in the case of the Norwegian health sector that strict budgeting has rejected and replaced by greater flexibility of the budget planning and implementation. In terms of the goal, the absence of a flexible policy in the educational budget has been compensated for transfer of risk to the contractor or supplier of the department (Seal & Ball 2011, p.423). Meanwhile, a philosophy of flexibility was sought to replace rigid bureaucratic structures during the implementation of Japanese-style cost management in a Sri Lankan privatised company (Wickramasinghe et al., 2004).

### 8.6.3.2  The actions of interest harmonisation

Interest harmonisation represented the nature of government budgeting which is considered differently with private sector organisations and is seen as closely allied to the  political process, although budgeting is definitely part of the managerial system (Wildavsky, 1986; Rosenberg, 1989; Kelly & Wanna, 2000). Rosenberg (1989) revealed

the nature of resource allocation inside local government during the budgeting process, as follows.

> [...] Whatever the social composition of a council, the alliance between elite professionals and politicians who represent a variety of interest groups and social categories is the corner-stone of local government politics [...] (p.129)

Moreover, Wildavsky (1986) argued more generally about the political environment in government budgeting, as in the following quote.

> [...]Budgeting is so basic it must reveal the norms by which men live in a particular political culture; it is through the choices inherent in limited resources that consensus is established and conflict is generated[...] (p.2)

However, this conceptual review only focused on process based practice rather than an institutional perspective. This grounded theory study presents a neo-institutional analysis concentrated on the micro practice of institutional change during implementation of performance budgeting. The finding of interest harmonisation is consistent with the concept of negotiations discussed in previous academic work (Kelly & Wanna, 2000; Collier, 2001; Peters, 2001; Serritzlew, 2005)

In the context of the study, negotiation and informal process are the dominant approaches in interest harmonisation. Referring to the previous research, negotiations were discussed by relating to purpose, process, and result. In this study, actors' negotiations were designed to implement the reform through several preferred ways. Managing the flexibility of budgeting in implementing the reform seems consistent to Collier (2001), who explains that flexibility was not only in the negotiation of strategy and targets, but also in how to allocate resources to achieve the targets. Budgetary negotiations were also highlighted in practicing the old norms of performance formulation during implementation of the reform (Kelly and Wanna, 2000). Negotiation can be also noted, in this study, as the process of interest harmonisation between executives and legislatures, as seen in accommodating, bargaining, and transactional negotiation. This findings support Peters (2001) who  noted that the practice of budgeting was viewed as intra-administrative negotiation activity, conceptualised as a continuing game; Wang (2000) noted budget negotiation as the basis for legislative negotiation. As a result, lax control may occur as the decision would not be challenged politically (Serritzlew, 2005), as long as the involved parties are satisfied.

As mentioned above, informal processes in budgeting have been noted as part of interest harmonisation during reform implementation. Principally, interaction in the budget can comprise of both formal and informal meetings (Christiansen & Skærbæk, 1997). However, this study explained the informal process as comprising the dominant model for decision making, although formal meetings are still conducted for a

legitimate forum. This finding is consistent with the findings of past studies by van Helden & Jansen (2003), Reay & Hinings (2009) and Johnsen (2012), which all highlighted informal meetings as the preferred option during budget formulation. More specifically, seeking informal input for decision making is one mechanism for managing the rivalry of competing institutional logics (Reay and Hinings, 2009). Performance information for budgets mostly comes from informal, verbal consultations and formal meetings with top managers (van Helden & Jansen, 2003).

### 8.6.3.3   Intertwining between reform implementation and interest harmonisation

Actions of reform implementation and interest harmonisation can be explained as two intertwined actions. For example, actions of practicing old norms are performed to support the process of interest harmonisations, such as for bargaining and negotiation. Without practicing the old (and familiar) norm, the actors may struggle to obtain an easy consensus in the budgetary process. On the other hand, negotiations in the budgetary process need a flexible strategy in order to implement the budgeting reform. These two intertwined actions represent the central phenomenon of 'managing the harmonising of interests' in two perspectives. The first perspective views the intertwined actions as a response to conflicting institutional demands (Oliver, 1991; Pache & Santos, 2010; Rautiainen, 2010) and the second perspective emphasises the internal process in institutional change that is quite similar to the concept of collaboration in managing the rivalry of competing institutional logics  (Reay & Hinings, 2009), and the impact of multiple logics upon budgetary practice (Ezzamel et al., 2012).

The first perspective explains managing the harmonising of interest interpreted as strategic responses to institutional demands (Pache & Santos 2010)

> [...] When facing conflicting demands focusing on means, and in the absence of internal representation of these demands, organisations are more likely to resort to compromise and avoidance than to other response strategies [...] (p.464)

As an illustration of a compromise strategy, a performance based budgeting system has been required by Indonesian national regulations to be fully implemented in local governments, while executive actors of local governments are being pressured by internal environmental issues, such as interests of politicians and the elected leader, to allocate budgets to their favourite projects and their political constituents. Executive actors commit to provide performance measures of each budget allocation while they also accommodate the interests of politicians and local leader in the actions designed to harmonise their interests. Therefore, in this context of the study, they implement

reform by helping to facilitate and manage budget flexibility, as well as practicing old norms in the new system. Alternatively, executive actors may try to avoid the internal pressures by limiting the space (ability of; opportunity for?) of politicians to scrutinise the proposed budget. In this avoidance strategy, executive actors use performance measures legitimised by central government organisations to limit the ability of politicians to scrutinise the proposed budget. If the compromise strategy is impossible to perform, executive actors will choose a comfortable solution to battle the pressure from politicians. They provide budget justification declaring that their decisions about the allocations have conformed to performance measures provided in the national guidance. The legitimate justification is aimed to drive the consensus decision reached with the politicians easily and smoothy through the formal meeting.

The second perspective in interpreting the intertwined actions can be related to the effort to manage competing institutional logics. This perspective is similar to the collaboration mechanism in managing rivalry between logics (Reay & Hinings, 2009). During reform implementation, collaborative processes between actors or groups can be highlighted in the field, as they intend to manage the co-existence of competing logics. The collaborative process can be identified in the existing literatures within the area of institutional change studies (Phillips et al., 2000; Lawrence et al., 2002; Reay & Hinings, 2009).

Collaboration can be utilised to explain the way multiple groups of actors commit to implement the budgetary reform that support the co-existence of competing logics. As an illustration, politicians and member of executive may have different ideas about the proper performance measures related to budget implementation. They maintain their independence but also collaboratively commit to perform the budgetary reform required by national regulations promoting both new managerial systems and greater autonomy. Politicians maintained their role to fight for their constituents' needs (logics of autonomy). At the same time, managers adhere to their department's targeted performance to use public funds efficiently, effectively and economically (new managerial logics). In this case, neither politicians nor members of the executive could win at the field level. Hence, the politicians and executives work together to implement the performance based budgeting system, through the structures that supported the co-existence of competing logics. The structures include the existence of EBTF, which plays a role as a medium to harmonise interests between actors. The structure exists to support the collaborative actions that are intertwined between actions relevant to reform implementation and interest harmonisation.

Similar to the argument of Reay & Hinings (2009), some types of collaboration can bring together disparate actors holding different interests and identities. The interests determine actors' preferences, while identities represent group members' collective

beliefs about who they are, and how they are different from others (Reay and Hinings, 2009). In the previous illustration above, collaboration between executives and legislators emphasise the particular type of collaboration that maintains the strong and separate identities of collaborators (Fiol et al., 2009; Reay & Hinings, 2009). Executives and legislators, who are the collaborators, maintain their identities sourced from professional beurocrat and public representatives respectively. Therefore, although they worked together to implement the new budgeting system through particular structures, each collaborator relies on their own legitimacy, values or rationality, particular basis of attention and strategy. This type of collaboration can be labelled as the first approach of collaboration noted in all three observed local governments.

Compared to the first version of collaboration, the second approach of collaboration, as interpreted from the substantive theory, refer to a conception that effective collaborations may develop a new identity associated with collaborations,  and the collaborators may, at least partially, leave their old identities (Hardy et al., 2005; Reay & Hinings, 2009). As an illustration, the study has observed that the three logics could be connected to the separate identities of politicians and executives. Collaboration was identified when actors produce a collective identity which leads to collective action (Hardy et al., 2005).  Unlike the first collaboration, this collaboration produces collective actions performed by either executives or legislators.  For instance, politicians may discard the decision of the executives to allocate a budget that indirectly relates to their constituents' requests, although the proposed budget is presented with legitimate performance measures. On the other hand, the spirit of executive actors in implementing the reform is to enhance accountability, and to develop professional bureaucrat and new managerial approaches which may limit the domination of the political process. Institutionalisation of the required reform involves managing the harmonising of interests as collaborative actions. In order to develop effective collaboration, therefore, both collaborators covertly agree to implement the reform through collective actions that support theprocess of interest harmonisation. As explained in the substantive theory, the reform implementation, as collective actions, includes practicing old norms in the new system, managing flexibility and preferring comfortable conditions.

In summary, managing the harmonising of interests is interpreted as strategic responses to institutional demands (Oliver, 1991; Pache & Santos, 2010) and similar to the concept of collaborations in managing conflicting institutional logics (Fiol et al., 2009; Hardy et al., 2005; Reay & Hinings, 2009).  The following section discusses interactions of managing the harmonising of interests related to the types of

collaborations, and the consequence of the interaction, to explain the institutional changes in the process of Indonesian local government budgeting reform.

### 8.6.3.4  Defensive and proactive strategies

There are four interactions involved in managing the harmonising of interest: i) utilising procedural compliance for internal control ii) managing trust relationships iii) managing public legitimacy and iv) playing games of power. These interactions contribute to the existence of decoupling between formal rules and routines. In relation to the existence of decoupling, the interactions are grouped to become two strategies: defensive and proactive. The former was developed from the first version of collaboration and is consistent with the adoption of a structure for legitimacy purposes. The latter explains the response from the collaboration practiced through a collective identity and action.

A defensive strategy is manifested in actions managing the harmonising of interests. The strategy explains how collaboration between executives and legislators, as illustrated in the substantive theory, are performed by individual executive actors. The actions include utilising procedural compliance for internal control and managing trust relationships.  Both actions represented internal legitimacy problems mainly caused by internal actors in responding to the demands of external pressures, similar to the findings in the context of Finnish hospitals' cost accounting (Järvinen, 2006) and Australian university budgeting (Moll  and Hoque, 2011).

As an illustration of legitimacy, executive actors have to manage internal pressures caused by legislators during implementing the new budgeting system. Meanwhile, they also experience external pressures arising from national government through the rules and regulations. Therefore, collaboration for the harmonisations of interests between executives and legislators can be highlighted in the form of utilising procedural compliance for internal control. Despite holding separate identities to the legislators, executive actors prefer actions that follow the legitimate procedures required by national regulations in order to sustain collaboration with those legislators. To support this collaboration, executive actors employ EBTF as a formal task force to openly mediate interest harmonisation with legislators, while ensuring that they are conforming to the national regulations. Consequently, the decisions and actions of the EBTF, regarding performance based budgeting implementation, are mostly focused on procedural monitoring instead of performance based control.

This pattern of legitimacy-purposed behaviour should be supported through another defensive action; that of managing trust relationships. To manage the conflicting pressures, managers and top executive leaders only trust selected persons who have

established emotional or transactional trust relationships with them. Therefore, members of EBTF should be occupied with the trusted personnel selected by the top leader and managers. Through this strategy, a structure adopted for the purpose of legitimacy was developed by executives in order to implement the required budgeting reform, whilst technical efficiency can be obtained through collaboration between executives and legislators.

Another interaction of the central phenomenon can be interpreted as proactive strategies. The interactions include collective actions consisting of managing public legitimacy and playing games of power. Unlike the defensive strategy, the actors actively challenge the external institutional pressures through collaboration between internal actors to engage in collective actions. Managing public legitimacy can be likened to something akin to "impression management" (Boxenbaum & Jonsson, 2008, p. 87). Executives and legislators adopt the new budgeting system for managing public impressions so that they could cope with the external pressures without difficulty when the good image has been obtained. Meanwhile, playing power games is another collective action aimed to manage conflicting demands. The games of power in budgeting are similar to the findings of Christiansen & Skærbæk (1997) who studied the implementation of accounting and budgeting systems in a theatre. The games are often highlighted as 'the budgetary games' in order to fulfil the demands of national regulations (Hyvönen & Järvinen, 2006).

Subsequently, both strategies contributes to the decoupling between rule and routine highlighted as the outcome of the central phenomenon. The next section discusses decoupling, compared to the previous concepts in the literature.

### 8.6.4   Compare decoupling to previous concept

The substantive grounded theory highlights decoupling as a consequence of strategies for managing the harmonising of interests. In the prevalent arguments, the finding of decoupling is close to the proposition that organisational actors respond to institutional pressures to ensure both legitimacy and technical efficiency for the purpose of survival (Meyer & Rowan,1977). Similar to this perspective, official procedures, techniques or prescriptions might not be frequently reflected in the actual behaviour of organisational members, due to legitimacy seeking behaviour (Rautiainen, 2010; Moll & Hoque,2011). In addition, this grounded theory study also offers another perspective: that conceptualised decoupling may occur from competing logics of actions resulting in legitimacy that may vary among actors. Instead of promoting actors as passive agents that plan defensive actions to survive, the concept of

decoupling in this grounded theory study, explains strategic aspects that represent how local governments practice decoupling for the purpose of impression management in order to maintain particular advantages from the budgeting reform. This perspective of decoupling, termed as proactive decoupling, refers to micro-political viewpoints in addition to the macro institutional (Fiss & Zajac, 2006).

Decoupling is often related to proactive reasons. As we could highlight from empirical discussions in this study, managing public legitimacy and playing games of power are the proactive strategies used to manage the harmonising of interests. Managing public legitimacy, such as practicing conformity, was identified in the budgetary reform implementation. This context is similar to the proactive reason for decoupling, as instanced in impression management (Elsbach & Sutton,1992). For example, conformity actions for good image purpose was viewed as proactive decoupling when, in this context, organisational members prefer to implement the new system, only if their conformity could obtain or escalate positive public impressions of their behaviour. Actors or groups are highly concerned to obtain and allocate social grants for their constituents, as well as attempting to comply with the requirement for obtaining unqualified opinion (ie. approval) from BPK (National Audit Board), although with lack of clear performance measures. All of these attempts are motivated to obtain both positive public impressions and legitimacy.

On the other hand, organisational actors or groups also employ defensive strategiesy for decoupling.  They apply rule based control as a legitimacy reason. Internal control was highly focused on employment of prescribed procedures, instead of performance achievement monitoring, which is the basis of control in performance budgeting. Actors or groups prefer to perform a particular set of actions that was considered socially desirable and appropriate in the current environment as a source of legitimacy. This engagement is conceptually known as technical efficiency seeking behaviour that exists in parallel with legitimacy seeking behaviour. For instance, efficiency seeking behaviour that leads to decoupling, can be noted in the concept of managing trust relationships. In decoupling literature, such as Meyer & Rowan (1977), these two behaviours can be instanced as sources of decoupling from defensive actions (Boxenbaum and Jonsson, 2008). In the public sector, the budgeting process becomes an important medium for institutionalisation of many rules and accounting changes (Hyvönen & Järvinen, 2006). However, lack of cohesion between budgeting rules and the organisational environment brings a need for decoupling (Brignall & Modell, 2000).

In this context of the study, defensive actions for decoupling explain using trust and power game related actions as socially desirable acts that technically support the budgetary process during reform implementation, and then make the process more efficient. For instance, employing emotional based trust eases coordination to manage

application of the reform, whilst performing transactional based trust assist the process of resource allocation. Game of power like actions also validate defensive actions for decoupling when playing dominance; prioritisation games have been employed to deal with institutional pressure in implementing the required reforms.

In summary, this study has contributed a thick explanation of decoupling as an outcome of institutional change in local government budgetary practice, rather than as a process. In addition, the motives and the ways of decoupling that were investigated relative to the institutionalisation of budgetary changes, are the crucial explanation.

## 8.7   Summary

This chapter presents a discussion of the framework developed towards a formal grounded theory. The framework was advanced from the substantive theory to provide discussion of the researcher's interpretations regarding the substantive theory. The central phenomenon of substantive theory, that is managing the harmonising of interests, was challenged with and matched against the existing theories of institutional change. The literature included neo-institutional theory, with particular focus on competing institutional logics.

The first relevant literature of the substantive grounded theory related to the interplay between external and internal institutional pressures (Greenwood and Hinings, 1996; Järvinen, 2006; Rautiainen and Järvenpää, 2012). While the second employed literature explains merely looking at internal process inside organisations (Lounsbury, 2007, 2008; Thornton et al., 2012). Using these two theoretical perspectives and previous empirical findings, the substantive theory is advanced to a framework supporting formal grounded theory.

# Chapter 9

# Findings, Conclusion and Limitations

## 9.1   Introduction

This chapter elaborates discussions presented in the previous chapters. First, the chapter start with summary of the research and findings. The summary includes details of the study's background, the aim and the findings.  Second, the chapter presents a discussion of the general, as well as specific, contributions of the research.  The contributions particularly concentrate on theoretical, practical, and methodological issues. Lastly, limitations are revealed and recommendations are offered for future research.

## 9.2   Research summary and findings

This research investigated the phenomenon of budgeting practices in three Indonesian local governments, as a case representative of a developing country. The researcher was eager to understand the budgeting practices under NPM implementation in public sector organisations, which have different environmental backgrounds compared to those in developed nations. Particularly, this study also examines the implementation of performance based budgeting under NPM reform, in a local government context, when the reform, unlike in the developed nations, was driven mostly by political reforms and  a developing process of democratisation, rather than a financial crisis.

Inspiration for the study began from the need to obtain in-depth understanding of activities inside an organisation, viewed through the lense of social subjective reality. This study has been motivated and built fundamentally on the inspiring methodological debates of Hopper & Powell (1985) and Chua (1988) by investigating the social world of accounting to capture more accurately the lived actors' experiences, in the context of three Indonesian local governments. It is possible to argue that a better understanding of accounting practices can be obtained through an interpretive study paradigm. In management accounting, despite alternative management accounting studies providing various explanations of practice, it is highly possible to create a theoretical revitalisation of alternative management accounting research. Baxter & Chua (2003) revealed that substantive contributions to alternative management accounting research are expected to continue in the contemporary context, as this study has been focused on three local governments' organisations. However, alternative management research in specific areas of local government

budgeting over the past two decades is minimal. Furthermore, most such research was carried out in developed countries (Rosenberg et. al, 1982; Jonsson, 1982; Seal, 2003; Goddard, 2004, 2005; Seal & Ball, 2011). For that reason, this study has been conducted in response to this research lacuna. It provides a knowledge contribution to the field of local government accounting and budgeting in the context of an emerging country, with Indonesia as a case study.

The finding of this study offers the substantive theory: managing the harmonising of interests, that explains the practice of Indonesian local government budgeting as an implementation of a newly promulgated performance based budgeting system. The theory explained the conditions, strategies and outcome of the central phenomenon. Although this study focuses on thick explanation of the substantive theory, the discussion develops a comparison analysis with the general theory and previous empirical work that related to the substantive theory. The finding conceptualises the institutional changes in the context of Indonesia's local government budgeting system practices. The comparison analysis brings the discussion towards the development of formal theory, although the discussion regarding the research findings stays at the substantive level.

More specifically, the context of the study illustrates the complex environment of the new budgeting reform implementation in three Indonesian local governments. As well as institutional pressures between external and internal factors, this study also highlights the coexistence of competing institutional logics in the implementation of performance based budgeting, as identified from internal actors between executives and legislators. Unlike the other budgetary reforms, the coexistence of two new competing logics: new managerial logic and local autonomy or democratisation logic are highlighted in the context of the study. The new performance based budgeting system has been interpreted by actors through these two conflicting logics in order to replace the old administrative logics. Conflicting logics mean no particular logic was able dominate in the accounting-budgeting field. The conflicting logics were also identified in the observation of the archival documents of national regulations and provincial policies. This complex environment caused the actors to implement the budgeting reform through the central phenomenon: managing the harmonising of interests.

Managing the harmonising of interest can be interpreted in two different perspectives informed by new institutional theory. The first is the response to conflicting demands between internal and external institutional pressures, whilst the second can be interpreted as the response to the competition between institutional logics held by

internal actors. The first perspective explains how the management of the harmonising of interests is interpreted as strategic responses to institutional demands (Oliver, 1991; Pache & Santos, 2010); the second view highlights the two identified approaches involving collaboration in managing conflicting institutional logics (Fiol et al., 2009; Hardy et al., 2005; Reay & Hinings, 2009). Despite similarities in terms of the existence of conflicting logics, the study uncovers the existence of competing logics that may arise from the two new logics' attempts to replace the old logics. Institutional logic research commonly reveals the battle in the field between old and new logic. However, the substantive theory explains different conditions when the new logic involves two competing logics that challenge the old models.

The findings principally conceptualise institutional change in the context of Indonesian local government budgeting reform. The findings illustrate that institutional change can occur through managing the harmonising of interests, thereby explaining the interplay between reform implementation and interest harmonisation during implementation of a performance budgeting system in three Indonesian local governments. In this institutional change, multiple interests of actors can be managed through understanding the coexistence of conflicting institutional logics that arise from the social level. As an outcome, the existence of decoupling between rules and practices is the result of either defensive or proactive motives.

## 9.3    General research contribution

The central phenomenon: 'managing the harmonising of interests' supports arguments of neo-institutionalist scholars who encourage perspectives focusing on the lack of research into organisational micro-practice, as a counterweight to a focus upon macro structures (Suddaby, 2010; Thornton et al., 2012). Understanding the practice of the new performance based budgeting system in Indonesian local governments cannot be addressed by merely looking at legitimate and isomorphic perspectives. Logics of  the representation of actors' interests in the field should be understood to explain the social reality of their practice.

Referring to the critical perspective, arguing that institutional theory tends to "defocalize" interests in explaining human behaviour, Scott (1987) promoted an argument that organisational or participants' behaviour is determined by either purposive reality or by being interest driven. Institutional theory claims that interests are institutionally defined and shaped (Friedland & Alford, 1991). Interests of actors in certain fields are determined and pursued by their institutional frameworks. For example, actors of agencies look for larger budgets, whilst actors of political parties pursue votes (Scott, 1987). Interests are brought from the prevailing institutional logics which shape decision making and provide actors' social reality in a given field. In

fact, neo- institutional scholars have critically discussed the excessive examination of researchs focusing upon cognitive, normative and regulative macro-structures causing, albeit indirectly, a lack of studies in the area of micro-foundations of institutional theory; thus the need for a study focused on proactive variations (Lounsbury, 2007,2008; Thornton et al. 2012). This grounded theory study contributes to the incremental evidence of micro-foundations' analysis of institutional theory, as explained in the following section.

Moreover, this grounded theory study also provide incremental contribution to government accounting literature particularly in understanding the context of developing countries. This study complement the previous studies conducted in South Asia Countries (see, Adhikari and Mellemvik, 2010; Adhikari *et al.*, 2015; Yapa and Ukwatte, 2015). Indonesia local government budgeting practice demonstrates the empirical evidence emphasizing the stronger role of political environment than the case of developed countries in explaining the factors which could influence the use of accounting information in the context of government organisation..

## 9.4   Theoretical contributions

This study contributes to the literature on institutional logics and institutional change by emphasising the analysis of micro level actions, as the actors actively managed the competing institutional logics embedded in the social level. Despite competing institutional logics, the interplay between external and internal institutional pressures is also considered in conceptualising the institutional change.

First, the framework of managing the harmonising of interests confirms the importance of institutional logics theory. Studies of accounting practice in organisational reforms, including budgeting research, have progressively considered institutional logics as a theoretical frame of reference in their analysis (Reay & Hinings, 2009; Ezzamel et al., 2012; Rautiainen & Järvenpää, 2012).  The growing popularity of institutional logic theory as a framework for organisational analysis is mostly based upon its central approach that incorporates multiple levels of analysis: institutional, organisational and individual.  Unlike the isomorphic and legitimate perspectives, institutional logics view society as an inter-institutional system that allows sources of heterogeneity and agency to be theorised and to be observed from contradictions between the logics of different institutional orders (Thornton et al. 2012, p.105). The substantive theory: 'managing the harmonising of interests' reflects this analytical perspective.

Multiple interests of internal actors, in the implementation of Indonesian  local governments' performance based budgeting system, mainly arise from executive actors and legislators. Such various and competing interests were interpreted using the institutional logics perspective as the theory seemed suitable with the emergent phenomena. Institutional logics was conceptualised  as a new theory of institutions to show how interests are institutionally shaped, instead of assuming the existence of an institution-free concept of interest and power (Thornton et al. 2012, p.41). Identified logics could help to explain different configurations of practice and give more insight to understanding the relationship between institutional forces and more micro processes (Lounsbury, 2008). The findings of this study can be considered similar to the previous analysis evident in several public sector studies. For instances, Meyer & Hammerschmid (2006) analysed to what extent the logic of the old administration was being replaced by new managerial logic in the Austrian public sector. Reay and Hinings  (2005) noted that the context of the health care field is shaped by various logics such as medical professionalism logic and the logic of business-like health care.

Second, institutional logics, as discussed previously, comprise a salient theoretical construct in understanding institutional change. The findings of this study illustrate not only the existence of multiple institutional logics but also competing logics. The coexistence of competing institutional logics, of different actors within an organisational field, characterises the institutional change. This can be instanced in various research areas such as the nature of radical change within health care organisational field (Reay & Hinings, 2005); collaboration as a result of the coexistence of competing institutional logics (Reay & Hinings, 2009); the tensions and interplay between competing institutional logics  (Swan et al., 2010); decoupling of formal rules and routines if there are conflicting logics (Rautiainen, 2010); and the coexistence of two competing structural logics: development logic and cultural-political logic (Jayasinghe and Wickramasinghe, 2011). The substantive theory – managing the harmonising of interests - explains the practice of the organisational actors' commitment to implement the required reforms. The reforms were conducted through the organisational actors' preferred ways, emphasising compatibility with the existence of various interests. This finding also provides incremental evidence of recent budgeting and accounting studies in the area of public sector organisations. For instance, Ezzamel et al. (2012) examined the introduction of budgeting practice when the tension between new business logics, prevailing professional logic and governance logic coexisted in the educational field. Hyvönen et al. (2009) investigated the change of the management accounting system in the Finnish defence forces, explaining that different responses of organisational actors resulted from different external pressures.

Finally, this study has also contributed to an understanding of the complex issue of institutional change. Despite internal factors, such as the coexistence of competing logics, understanding institutional change can be investigated through the interplay between internal and external pressures. The substantive grounded theory represents inter-penetration between external and internal pressures. This finding is similar to the perspective of institutionalist schoolars who conceptualise institutional pressures as forming a set of beliefs of organisational actors associated with external and internal tensions (Greenwood and Hinings, 1996; Järvinen, 2006; Rautiainen and Järvenpää, 2012). Particularly, Pache and Santos (2010) use the term 'institutional demands' to represent both institutional pressures.

## 9.5  Practical contribution

This research raises certain practical implications, particularly for domestic and international policy makers of NPM and budgetary reforms. The policy makers, such as Indonesia's central government, the World Bank and IMF, must carefully take into account the complexity of the reform's context, for successful implementation of that reform. This findings reemphasize the important role environmental background of the study's context in developing an effective reform's approach. Moreover, a great variation in the approaches adopted for accrual accounting also exist among the countries which have implemented the governmental accounting change (Adhikari and Mellemvik, 2008). This study provides empirical evidence that can be used by international financial institutions, namely the World Bank and the Asian Development Bank (ADB) for describing experiences of South Asia countries (Adhikari and Mellemvik, 2010; Adhikari et al., 2015; Yapa and Ukwatte, 2015) .The findings of this study promote three salient practical implications.

First, Indonesia's central government must realise that the lack of success of the reform relates to the social environmental context. The implementation of national rules and regulations to guide local governments' behaviour, obviously did not consider the existence of conflicting interests arising from competing institutional logics. In fact, the primary source of competing institutional logics is the rules and regulations published by central government for local government reform. The logic of the new managerial model exists in the regulation regime of the NPM reform, while democratisation logic presents in the regime of political reform. These two logics may confront each other, having been brought together by different group of competing organisational actors involved in interpreting the reform implementation.  Most executive actors tend to interpret implementation of performance based budgeting as a tool that can manage the public funds efficiently and effectively. In contrast,

politicians may follow the logic that the real performance measurement is to ensure the existence of public participation in the budgetary process. These two logics have been allowed to compete without end, contributing to the organisational practice of interest harmonisation during the reform. Therefore, this finding of the study suggests that designing national rules and regulations for local government budgetary reform should have been able to manage these two logics since the beginning of the reform. Allowing these two logics to compete in the organisational budgetary practice obviously contributes to the unintended practice becoming decoupled from the rules and regulations.  Redesigning the national regulation may inhibit or even stop the conflicting logics and therefore directly reduce the negative impact of the battle.

Second, the establishment of national rules and regulations alone for local government guidance is not adequate for the successful implementation of budgetary and NPM reforms. The prevailing internal administrative culture must be understood by policy makers before introducing  the new budgetary system. Despite the existence of multiple interests, organisational actors may behave collectively in a particular action, during implementation of the budgetary reform as a group response to the coercive pressure from the national rules and regulations. The nature of internal organisational culture, as well as political, social and economic conditions, determine the collective response of the actors. For instance, practicing the norm of incremental budget within the performance budgeting system was influenced by the ring-fence culture. This culture can also be related to the political settings constructing the actors' fear of losing  power. The incremental strategy for ring-fencing the budget was mainly intended to create strong justification during budget discussions, in order to maintain the previous allocation of a department and the personnel's allowances. The complexity of a performance based budget system was supposed to limit actors' powers to maintain the allocation for their department. Therefore, policy makers should carefully consider this kind of cultural administration which is embedded in the internal organisation. The budgetary rules and regulations should be able to influence the fundamendal change of the existing administrative cultural practice. However, other efforts for cultural change, such as personnel character building development, should be directed to support the role of rules and regulations. An initiative to develop self-conciouseness about actions that are morally acceptable, is much more important than merely stressing the technical knowledge contained within the new system. In addition, a fair and rational improvement of officers' allowances and salaries may be a catalyst for positive change.

Third, the context of Indonesian local government is very distinct, not only from a developed countries' context but also from other developing countries.  Local cultural background may influence differently the process of change for each Indonesian local

government. The existence of multiple cultural backgrounds among Indonesia's local governments has to be considered as beneficial rather than seen as cultural barriers. For instance, the effective ways of actors to manage trust relationship are quite different between Javanese and Sumatran Malay cultures; the two societies in which the three local governments featured in this study existed. Emotional based trusts are more influential in the Java context. The actors in the Java context appear willing to follow directions from their senior or leader when they find him to be a suitable role model figure. Meanwhile, the actors of Sumatran Malay develop a trust culture based on clan relationships originating from groups of tribes, and those sharing political interests. Understanding these various trust cultures makes the reform more likely to be implemented effectively, if the policy makers employ the embedded culture as a medium for facilitating successful reform.

## 9.6   Methodological contributions

The methodological contributions place emphasis on the explanation offered by two elements of the research methodology. The first contribution relates to the interpretive paradigm of research in management accounting, and the second relates to the method of grounded theory applied in the accounting research area.

### 9.6.1   The interpretive paradigm

This research provides an instance of management accounting research which straddles the subjective and the objective domains (Kakkuri-Knuuttila et al., 2008). Similar to this perspective, Ahrens (2008) and Lukka and Modell (2010) argued that interpretive management accounting research, by its nature, cannot separate these two domains.  Organisational actors constantly produce their social reality in interaction with others. The aim of a researcher employing an interpretive approach is to analyse such realities, and the ways in which those realities are socially constructed and negotiated (Hopper and Powell, 1985).

The analysis of the study is in line with the perspective that an interpretive research has to include not only an emic mode of analysis through investigating the perceptions of actors but also an etic explanation. An interpretive study limited to an emic analysis would only produce a relatively uninteresting description of the issue in focus, without providing any theoretical explanation. Therefore, application of the grounded theory method in this interpretive research makes it possible to include an etic based perspective in presenting data analysis. This allows a combination between emic understanding and etic explanation, through investigating actors' perceptions of their

everyday practice, as well as emphasising the researcher's sociological analysis. The substantive theory and its development toward formal theory have demonstrated this combination of analysis.

As an emic based understanding analysis, this interpretive study delivers a description of behaviour based on perceptions of the organisational actors who provide their own meanings. For instance, the ways of Indonesian local government actors in implementing the reforms, involves consideration  of the issues of 'easiness' and 'middle way' agreement. The meaning of these actions was highlighted from actors behaviour concerned with 'simplicity' during implementation of the reform. Organisational actors may choose a more familiar approach, such as cash accounting, instead of an advanced method such as the accrual system. In addition to considerations of simplicity, organisational actors prefer to make decisions through consensus and to avoid conflict. Next, all of the identified meanings of actions observed in the local governments were gathered and related to each other, thereby generating the substantive theory: 'managing the harmonising of interests'. The etic explanation was conducted through this substantive theory.

The etic explanation focuses on understanding the behaviour of actors or groups conceptualised in the substantive theory through researcher's sociological lens. As a starting point, the researcher employed neo-institutional sociology as general theory to validate the findings.  Departing from rich description and without a predetermined theory in emic understanding, this researcher began to compare and contrast the substantive theory with the previous findings in other substantive areas. Through the abductive strategy, the researcher finally accomplished a framework for a formal theory that focused on explaining the substantive theory through the perspectives of both institutional demands and institutional logics theory.

In short, this interpretive study contributes to the illustration of validation practice in interpretive management accounting research. The combination of emic and etic presentations involves the instruments of validation in interpretive approaches (Kakkuri-Knuuttila et al., 2008; Ahrens, 2008; Lukka and Modell, 2010).

### 9.6.2  Grounded theory

The researcher adapted grounded theory method by selectively integrating the logic and practice of other qualitative research styles (Locke, 2001). Referring to this idea, this section promotes the methodological contributions by looking at the way a researcher adopts the grounded theory approach. The contribution can be a technical approach, and a selection or modification of theoretical perspective. There are three methodological contributions delivered from the employed method of grounded theory

noted in this study. The first contribution relates to the coding procedures, the second relates to the process of integrating the emergent concepts, and the last contribution relates to the way to validate the substantive theory.

### 9.6.2.1 **Coding procedures**

The analysis of Straussian grounded theory comprises of three coding stages: open, axial and selective. Primarily, this grounded theory study demonstrated a systematic approach during the open coding process, but avoids imposing the emergent categories through the prescripted approach. Strauss and Corbin (1990, 1998) explain that open coding requires the identification of categories, their properties, and their dimensions. In the real research process, some of categories cannot be fully treated, as mentioned in the Straussian prescription. Modification from the suggested procedure was performed by using three stages of open coding: early categories, grouping early categories and final open categories. Through this open coding strategy the researcher could identify the final open categories representing a pattern or similarity of sub-categories, generated purely from the meaning of actions in the observed organisations. In some categories, dimension of their properties are difficult to be formulated due to the nature of categories. Principally, the open coding procedures employed in this study avoid forcing the emerging properties and dimension of categories. If a category cannot be further identified from their properties and dimensions, then the researcher will focus on the patterns or similarities of their sub-categories.

### 9.6.2.2 **Integrating the emergent concepts**

The study contributes to the illustration of how the emergent concepts were integrated to become a theory. The way to integrate was inspired by the paradigm perspective of Strauss and Corbin (1998, p.128).  Once the most important core category was selected as the central phenomenon, then conditions, strategies and consequences were discovered from the other core emergent categories. Discovering causal conditions of the central phenomenon was conducted through grouping answers to the questions: why, where, how come, and when.  Next, routine tactics or strategies with regard to the central phenomenon were explored by the questions: 'by whom' and 'how'.  Finally, consequences are discovered by grouping answers to the questions as to what happens as the result of the routine tactics or strategies. Through this paradigm, a theory of managing the harmonising of interests was generated by integrating the emergent concepts. This practical example of the grounded theory approach may provide practical guidance for a new researcher who employs a qualitative method and particularly grounded theory method.

### 9.6.2.3  **Validation of the substantive theory**

Integrating and validating are an interrelated process. A practical example of how to validate the substantive theory was demonstrated in two phases. The first phase demonstrated the way for a researcher to compare the emergent scheme against the raw data. This was performed before and during the second round of data collection. The preliminary scheme of managing the harmonising of interests was generated after the first round of data collection and refined during the second round of data collection.   Meanwhile, the second stage was performed by proposing a framework towards a formal grounded theory. The emergent theory was explained through comparison and contrasting with the previous empirical works both in the same and different areas of research. This was addressed to look for the general theoretical perspective that fitted the substantive theory. Through this phase, the substantive theory was explained using the new institutional theory, with more specific attention to the conflicting institutional demands and competing institutional logics. The process of validation demonstrates an illustration of a practical example that might be a valuable guideline for another grounded theory researcher.

## 9.7  Limitations

Various methodological issues arise as limitations experienced during the study of Indonesia local government budgeting reform. In the process of responding to the focused research question, which concentrated on the practice of performance-based budgeting implementation in three Indonesian local governments, the methodological issues relate to the short period of observation and the in-depth observation constraint. The following section discusses these limitations with explanations of the researcher's efforts and strategies to manage these limitations.

### 9.7.1  **Short period of observation**

Field study was conducted twice in each observed local government from 2012 to 2013. As this research only investigated a one year's budget, the observation could not obtain the whole story of the respondents' experiences in the period before and after the budgetary reform. The budgetary and NPM reform, such as the change from traditional budget to performance based budgeting, was first introduced in 1999, in the same period as the end of the Suharto regime, when the democratisation agenda was the trigger for the government's budgetary reform. Therefore, the junior respondents, who were appointed as local government officers after the year of effective reform implementation in 2002, might not have enough knowledge about the previous budget system. The experiences of actors regarding the previous budgetary system were obtained from senior respondents who are currently appointed as

managers inside departments or agencies. This study interviewed both lower level staff and managers to learn of actors' experiences about reform implementation. Despite only a few stories about previous budgetary practice being obtained from interviewees, archival documents, such as national rules, regulation and manuals of previous systems, were collected and analysed to support the actors' experiences regarding the practice of previous systems.

### 9.7.2   In-depth observation constraint

This study observed, in-depth, three Indonesian local governments for this study. The observation was conducted not only in EBTF members functioned as budgetary coordinators but also in the selected organisational units. The researcher chose to observe the departments of education and departments of health service as the representative units which have the biggest budget allocations. In practice, the design of the observations restricted the researcher to a more in-depth investigation of budgeting practices in social service facilities in the education and health sectors, such as schools and hospitals. However, several interviewees were previously staff members of schools or hospitals who had currently become officers of the departments. The findings of this study focused on interaction between actors or groups at the local government organisational level, who were directly involved in preparing the budget, until it was approved through their local parliament.

## 9.8   Recommendations

Informed by the discussion of the substantive grounded theory and the framework toward a formal theory, together with the research contributions and limitations, this section proposes recommendations for future research in the following issues.

Firstly, managing the harmonising of interests explains and illustrates a response of organisational actors or groups, to conflicting institutional demands during implementation of a new budgeting system, in the context of three Indonesian local governments. The institutional demands were highlighted as the result of the co-existence of competing institutional logics emerging from national or societal levels reflected in the archival documents of national rules and regulations. The findings did not cover why and how these competing institutional logics could occur, as the investigation only refers to the archival documents of national rules and regulations. Therefore, further research could be addressed to investigate causative factors of the conflicting institutional logics, investigated through the actors who formulate the national rules and regulations.  This grounded theory study could not go further to

interview actors outside local governments, during observation in the research sites, due to accessibility and time limit reasons. Understanding how causal conditions of the phenomenon of 'managing the harmonising of interests' occur is fundamental for uncovering the complexity of organisational change, in order to be able to effectively implement performance based budgeting in the context of Indonesian local governments.

Secondly, the process of managing the harmonising of interests explains decoupling as a consequence of the central phenomenon. Unlike the existing institutionalist works, decoupling arises from the coexistence of competing institutional demands that lead to organisational response to managing the harmonising of interests. Previous concepts of decoupling are close to the proposition that organisational actors respond to institutional pressures to ensure both legitimacy and technical efficiency for survival (Meyer & Rowan,1977). However, this study also found there was decoupling for the purpose of impression management, in order to maintain particular advantages from the budgeting reform. This perspective of decoupling, termed as proactive decoupling, refers to the micro-political viewpoint in addition to the macro-institutional (Fiss & Zajac, 2006). This incremental finding should be utilised for further research to investigate decoupling for the specific purpose of impression management.

Thirdly, the substantive theory conceptualised the institutional change that supports the perspective emphasising the important role of power and interests in the evolution and/or change of the organisational fields  (e.g., Seo & Creed 2002; Ezzamel et al. 2012). Understanding institutional logics is fundamental to conceptualisations of institutional change. Conceptually, power domination in the organisational field could be highlighted when certain logic becomes dominant, so providing the guidance for actions in the field. On the contrary, managing the harmonising of interests is an identified situation where competing logics coexist and no one power can dominate in the field. Therefore, further research could be aimed to investigate how power, that is culturally contingent, is able to uncover the explanations of institutional change. Thornton et al. (2012) promotes the issue "do the uses of power reflect multiple responses to cultural heterogeneity or are the responses to power and domination universal" although competing institutional logics coexist in the field.  Extended observation time in the field of study could be designed to unravel how and why power could cause particular logics to become dominant. In such research queries, critical research paradigm might be  suitable for developing an appropriate approach of the further research. With the critical paradigm, the research could be expected to contribute more to the development of current practice. The substantive theory, generated from this intrepetive study, are temporal and context bound. Therefore, the further study could be addressed to the link between theory and practice as theory has

a critical imperative, in particular the identification and removal of domination and ideological practice (Chua, 1986).

Lastly, moving forward to a formal grounded theory is recommended for further research, instead of just explaining a framework of the substantive theory or creating a framework toward a formal theory. The substantive theory only concentrates on the explanation of a one-area theory developed for a substantive/empirical area. A formal grounded theory is a "multi-area" theory developed for a conceptual area (Glaser and Strauss, 1967; Strauss, 1987). In a response of the process of abductive presentation, further research can be addressed to extend analysis of constant comparison of substantive theory with multiple relevant literature sources. At the moment, institutional logics theory may the most relevant and appropriate general theory to explain the substantive theory – managing the harmonising of interest but the development of NIS theory or other relevant sociological perspectives need to follow continuously. The more analysis of constant comparisons, the more robust will be the formal theory that is generated. Moreover, positivitist paradigm could be further employed to develop generalisation of the emergent theoretical concept.

# Appendices

Appendix 1 Mapping the national regulations regarding the budgetary reform

Financial Crisis 1997/1998 lead to the change of

NPM Implementation

Main expectation to create better public service and management through the change **from centralistic to autonomy/decentralise**

**Democratisation & Autonomy through Decentralization**

National law No.22/1999 regarding local governance

National law No.25/1999 regarding financial sharing between central and local government

The change of financial management system

**First reform** *(Implemented effectively from 2002 to 2005)*

**Second Reform** *(Implemented effectively from 2006 to now)*

**Government regulation as implementation of national law**

No 105/2000 regarding the Region's Financial Management and Accountability

No 106/2000 Regarding management and responsibility of deconcentration

Others relevant government regulation

Minister of Home Affair (MOHA) Regulation

**The new package of national law to redesign autonomy and state**

National law No.17/2003 regarding state finance

National law No.32/2004 regarding local governance

National law No.33/2004 regarding financial sharing between central and local

Other relevant national

National law No.1/2004 regarding State Treasury

National law No.15/2004 regarding national audit

National law No.25/2004 regarding national development

**Government regulation as implementation of national law**

Need one regulation that can legalize comprehensively as implementation instrument of various

Need one regulation that can legalize accounting standard for government institution

Others relevant government regulation

**Government Regulation No 58/2005** Regarding local finance management

**Government Regulation No 24/2005** regarding accounting standard for government

**Revised in Government Regulation No 71/2010**

**Minister of Home Affair (MOHA) Regulation: No 13/2006 and then revised partly in No 59/2009 regarding guidance of local financial management**. It is followed by other relevant regulation such as for local debt and planning system that dynamically enacted

Appendix 2 List of documents collected and analysed during the study

| No | Name of Document | Description | Source |
|----|------------------|-------------|--------|
| 1 | Budget summary | The published budget that has been enacted as a local government law (For the year 2013) | RPM, RBK and CSM |
| 2 | Proposed budget of DE | Consist of list of proposed programmes and activities including its targeted performance. The document officially prepared by head of education department | RPM, RBK and CSM |
| 3 | Proposed budget of DH | Consist of list of proposed programmes and activities including its targeted performance. The document officially prepared by head of health department | RPM, RBK and CSM |
| 4 | Strategic plan of RPM | Consist of targeted performance and programmes for the year 2010 - 2015 | Planning and development agency of RPM and website |
| 5 | Strategic plan of RBK | Consist of targeted performance and programmes for the year 2010 - 2015 | Planning and development agency of RBK and website |
| 6 | Strategic plan of CSM | Consist of targeted performance and programmes for the year 2011 - 2016 | Planning and development agency of CSM and website |
| 7 | Agreement of budget policy | For the year budget 2013 | RPM, RBK and CSM |
| 8 | Strategic plan of DE | Consist of programmes and activities with its targeted performance for department of education derived from their local government strategic plan | RPM, RBK and CSM |

Appendix 2

| No | Name of Document | Description | Source |
|---|---|---|---|
| 9 | Strategic plan of DH | Consist of programmes and activities with its targeted performance for department of health derived from their local government strategic plan | RPM, RBK and CSM |
| 10 | Local Government Law Regarding Local Financial Management | Regulate the local financial management as general guidance for budgeting, controlling and reporting. | RPM, RBK and CSM |
| 11 | Mayor/regent regulation | The guidance for local government officer derived from national regulation and local government law | RPM, RBK and CSM |
| 12 | National Law No 17 / 2003 | National law regarding state finance | MoHA website |
| 13 | National Law No 1/ 2004 | National law regarding State Treasury | MoHA website |
| 14 | National Law No 32/ 2004 | National law regarding local governance | MoHA website |
| 15 | National law No.33/2004 | National law regarding financial sharing between central and local | MoHA website |
| 16 | National law No.25/2004 | National law  regarding national system of planning and development | MoHA website |
| 17 | National law No.15/2004 | National law  regarding national audit | MoHA website |
| 18 | MoHA Regulation | Any MoHA regulation derived from national laws and regulation as budgetary guidance | MoHA website |

Appendix 3 Data coding analysis

| No | Early Coding | Grouping of Early Coding | Open Coding | Core Codes |
|---|---|---|---|---|
| 1. | Conflicting regulations need to be clearly explained by central government | **Awareness of the importance of national policy** | | |
| 2. | Avoid innovation without any regulation based concept | | | |
| 3. | Local government budget is part of state finance | | | |
| 4. | The dominance of fund allocation from central government | **Dependency on central government's fund** | **Reflecting central government's power** | |
| 5. | The dominance of DAU and DAK (block and specific grant from central government) | | | |
| 6. | Prediction of fiscal capacity depends on central government's policy | | | |
| 7. | Presenting financial report through outsourcing staff | **Conforming effort to national regulation and policy** | | **The influence of provincial and central government** |
| 8. | Struggling with adoption of central government performance measure | | | |
| 9. | Difficulty in replicating national regulation to local government regulation | | | |

| No | Early Coding | Grouping of Early Coding | Open Coding | Core Codes |
|---|---|---|---|---|
| 10. | National norm as verification tools of province government | Benchmarking norms of province government | Following norms of provincial governments | |
| 11. | Province norm as benchmark | | | |
| 12. | Coherency with province objectives | | | |
| 13. | Province as representative of central government | Awareness to importance role of province government | | |
| 14. | Proposed allocation of central government specific grant must be coordinated by their province | | | |
| 15. | Highly concern with monitoring and evaluation of budget enactment date | Compliance with province policy | | |
| 16. | Province officer determine monitoring policy | | | |
| 17. | Referring province strategic plan objective for legitimating purpose | | | |
| 18. | Replicating ministerial degree to local regulation | Synchronizing local regulation with national regulation | Following national regulations | |
| 19. | Adopting performance measure of central government agencies or | | | |

| No | Early Coding | Grouping of Early Coding | Open Coding | Core Codes |
|---|---|---|---|---|
| | department | | | |
| 20. | Budget for personnel participation in national event | **Anticipating dynamic development of regulation** | | |
| 21. | Training program budget for new regulation | | | |
| 22. | Hiring national consultant | | | |
| 23. | Funding support for grant of province | **Provision sharing budget** | | |
| 24. | Sharing budget for deconcentration allocation of province | | | |
| 25. | Funding support for grant of central government | | | |
| 26. | Sharing budget for deconcentration allocation of central government | | | |
| 27. | Grant provision for vertical organisation operated in the area of local government | **Budget allocation for vertical organisation** | **Budget provision for vertical organisations** | |
| 28. | Budget allocation for sharing funded program of vertical organisation | | | |
| 29. | Allocating additional income for personnel of central government who worked to provide public service in local area | | | |

| No | Early Coding | Grouping of Early Coding | Open Coding | Core Codes |
|---|---|---|---|---|
| 30. | Local government asset to support national police, army and other vertical organisation | **Maintaining service capacity of vertical government organisation** | | |
| 31. | Providing building for office of vertical organisation | | | |
| 32. | Prioritized programs of top leader that was published in the campaign during the election | **Maintaining good image of top leader** | | |
| 33. | Programmes for maintaining good image reputation of top leader | | | |
| 34. | Performance information of budget is utilized to communicate promising outcome to public | **Performance budget for political purpose to attract constituents.** | **Maintaining a good impression** | **Obtaining conformity for managing public legitimacy** |
| 35. | Budget allocation as political means to attract and maintain politicians' constituent | | | |
| 36. | Politician enthusiasm for grant allocation | | | |
| 37. | Effort to avoid punishment from central government | **Reward and punishment consideration** | **Performing purposive compliance for** | |
| 38. | Reward from central | | | |

| No | Early Coding | Grouping of Early Coding | Open Coding | Core Codes |
|---|---|---|---|---|
| | government as result of conformance | | legalisation | |
| 39. | Political agreement to conform with official enactment date | Conformance to enactment date | | |
| 40. | Highly concern to province evaluation and monitoring of enactment date | | | |
| 41. | Disclose as required explicitly by regulation | Sagacious transparency | Securing image free from the prejudice of corruption | |
| 42. | Avoid disclosure for a matter that is not stated by regulation | | | |
| 43. | Not publish a matter that possible to create supposition about corruption issue | | | |
| 44. | Publishing any good achievement in local government financial management | | | |
| 45. | Facing NGO monitoring | Effort for managing the press | | |
| 46. | Facilitating press conference | | | |
| 47. | Providing transport fund for press member | | | |
| 48. | Simplifying performance information for public | | | |

| No | Early Coding | Grouping of Early Coding | Open Coding | Core Codes |
|---|---|---|---|---|
| 49. | Prioritizing routine budget | **Persistence of the previous budgeting norm** | | |
| 50. | Practicing repetitive budget | | | |
| 51. | Conducting incremental approach | | **Practising old norms in the new budgeting system** | |
| 52. | Input based budgeting | | | |
| 53. | Persistence of previous line item budgeting system | | | |
| 54. | Ritualistic  top down allocation | **Allocating yearly budget as repetitive procedure** | | |
| 55. | Rhetorical bottom up based allocation. | | | |
| 56. | Basic allocation based on previous year allocation and its performance of realization | | | |
| 57. | Last minutes cutting off to synchronize with final fiscal capacity | | | |
| 58. | Previous performance as guidance for estimating next allocated budget | **Rhetorical performance based budgeting for elasticity purpose** | **Managing flexibility** | **The harmonising of interests** |
| 59. | Performance measure as powerful tools to justify allocated resources | | | |

| No | Early Coding | Grouping of Early Coding | Open Coding | Core Codes |
|---|---|---|---|---|
| 60. | Allocating allowance for dynamic interest | **Preparing flexibility for elastic allocation** | | |
| 61. | Budget revision as medium for flexibility | | | |
| 62. | Avoidance of difficult measure formulation for elasticity | | | |
| 63. | Avoid immediate implementation of accrual basis due to complexity | **Considering easiness** | **Preferring simplicity** | |
| 64. | Waiting for detailed guidance of new policy | | | |
| 65. | Copying previous year budget proposal | | | |
| 66. | Avoiding detailed explicit measure | | | |
| 67. | Budget policy can be agreed temporary in local parliament | **Middle way of political agreement** | | |
| 68. | Becoming followers of dominant political opinion | | | |
| 69. | Evaluation of province can be negotiated informally | | | |
| 70. | Effort to accommodate various interest of stakeholders | **Accommodating various interest** | | |
| 71. | Maintaining intentional communication through | | | |

| No | Early Coding | Grouping of Early Coding | Open Coding | Core Codes |
|---|---|---|---|---|
| | budgeting process | | | |
| 72. | Bargaining like practice in preparing budget | **Bargaining and negotiation for compromised allocation** | **Harmonisation of interests** | |
| 73. | Informal negotiation between Politician and operational manager | | | |
| 74. | Effort to bring informal commitment to formal agreement | **Compromised agreement through formal meeting** | | |
| 75. | Preference to have formal interaction with members of local parliament | | | |
| 76. | Formal meeting as legitimation forum for decision making | | | |
| 77. | Top leader as a role model | **Leadership charisma** | **Employing emotional based trust** | **Managing trust relationship** |
| 78. | Dependency to the top leader's decision | | | |
| 79. | Respect to senior personnel during resource allocation | **Respect to senior actors** | | |
| 80. | Indirect negotiation to senior actor | | | |
| 81. | Referring absorption rate | **Performance** | | |

| No | Early Coding | Grouping of Early Coding | Open Coding | Core Codes |
|---|---|---|---|---|
| | of previous year budget | **achievement based allocation** | **Performing transactional based trust** | |
| 82. | Effectiveness of output as basis for additional allocation of agency | | | |
| 83. | Personal incentive based on particular performance | | | |
| 84. | Appointed key managers based on "clan" for trust reason | **Repaying clanship** | | |
| 85. | Trust of operational manager to the key personnel involved in formulating budget | | | |
| 86. | Clanship personnel of manager | | | |
| 87. | Lack of mutual trust between CFO and COO | **Different expectation cause distrust** | **Mutual distrust between actors** | |
| 88. | Distrust from operational manager related to allocation of budget | | | |
| 89. | Different expectation between actors | | | |
| 90. | Mutual distrust between politician and budgeting task forced team(TAPD) | **Mutual distrust from different interest** | | |
| 91. | Mutual distrust between TAPD and operational manager | | | |

| No | Early Coding | Grouping of Early Coding | Open Coding | Core Codes |
|---|---|---|---|---|
| 92. | Difficulty to conduct purely objective procurement | Pessimistic perspective about behavioural change of budget execution | | The presence of distrust |
| 93. | Distrust of fairness in procurement practice | | | |
| 94. | Unstandardized capacity and various organisational quality of procurement participants | | | |
| 95. | Complicated procedure of procurement system | | | |
| 96. | Lack of personnel with proper accounting competencies involved in budgeting | Distrust to benefit of the reformed accounting | Distrust of the current environment | |
| 97. | Scarcity accounting personnel in operational department | | | |
| 98. | Lack of empowerment of accounting personnel | | | |
| 99. | Budgeting is perceived as separate system to accounting | | | |
| 100. | Unenthusiastic behaviour for further step of accounting reform (full accrual approach) | | | |
| 101. | Awareness for enhancing | | | |

| No | Early Coding | Grouping of Early Coding | Open Coding | Core Codes |
|---|---|---|---|---|
| | transparency | | | |
| 102. | The need to improve accountability | **Main principles held in budget formulation** | | |
| 103. | Principles of public participation | | | |
| 104. | The use of performance measure stated in strategic plan | | | |
| 105. | Effort to link strategic plan performance measure with output of budget | | | |
| 106. | Managerial controlling tools | | | |
| 107. | Monitoring awareness from central government for public infrastructure improvement | **Concerning external monitoring tools** | **Improvements resulting from the reform implementation** | |
| 108. | Monitoring tools for vertical government | | | |
| 109. | Performance indicators as medium for public monitoring | | | |
| 110. | The use of detailed performance information in budget document | **Mechanistic improvement in budget operation** | | |
| 111. | Combination top down together with bottom up budget allocation | | | |

| No | Early Coding | Grouping of Early Coding | Open Coding | Core Codes |
|---|---|---|---|---|
| 112. | Procedural change in the implementation of new budgeting system | | | |
| 113. | Grant allocation for public empowerment | | | |
| 114. | Stimulus programme for public involvement | **Public empowerment budget** | | |
| 115. | Supporting direct budget allocation to local community from vertical government | | | |
| 116. | Unlink expected outcome with output | | | |
| 117. | Disassociated targeted output with budget allocation | | | |
| 118. | Inconsistency between initial budget policy and final purposed outcome of budget | **Unlink between element of strategic plan and element of budget** | **Disconnect between required reform and practice** | |
| 119. | Lack association between expected outcome of strategic plan and targeted annual plan | | | |
| 120. | The use of financing budget account | **Funding mode for covering deficit budget** | | |
| 121. | The significant amount of | | | |

| No | Early Coding | Grouping of Early Coding | Open Coding | Core Codes |
|---|---|---|---|---|
| | previous fund balance | | | Decoupling |
| 122. | Prediction of previous fund balance mostly based on unfinished activities | | | |
| 123. | Audited previous fund balance as allowance for funding of budget revision | | | |
| 124. | Unmatched official schedule from actual timetable | Unintended result from the reform | | |
| 125. | Developing asset account that unmatched with capital expenditure budget | | | |
| 126. | Accrual information never been employed for budgeting purpose | | | |
| 127. | Cash basis in budgeting but reporting partly based on accrual | | | |
| 128. | Performance measure based on absorption rate of budget | | | |
| 129. | Symbolic measurement in strategic plan | Symbolic performance measurement | | |
| 130. | Flexibility spirit in strategic plan | | | |
| 131. | Achievement of strategic plan can be negotiated | | | |

| No | Early Coding | Grouping of Early Coding | Open Coding | Core Codes |
|---|---|---|---|---|
| 132. | Political interest should be reflected in the formulated performance measures. | | | |
| 133. | Agree for disagreement of budget policy | **Ritual practice in conforming to requirement** | **Ritual and ceremonial practice in reform implementation** | |
| 134. | Temporary agreement of budget policy | | | |
| 135. | Short term oriented performance measures | | | |
| 136. | Budget enactment as a formal legitimacy process | **Ceremonial for conformance** | | |
| 137. | Budget allocation based on regulated nomenclature | | | |
| 138. | Concerning more to compliance of enactment date | | | |
| 139. | Proposed budget document without proper verified performance information | | | |
| 140. | Attempting to get unqualified opinion from national audit board | **External environment monitoring pressure** | **Fear to be accused as subject of corruption** | |
| 141. | Active monitoring from non-governmental organisation | | | |
| 142. | Providing allocation to | | | |

| No | Early Coding | Grouping of Early Coding | Open Coding | Core Codes |
|----|--------------|--------------------------|-------------|------------|
| | support the press | | | |
| 143. | Providing indirect privilege for law enforcement officer | | | |
| 144. | Highly concern to the law associated with corruption | | | |
| 145. | Conservative action when operating in grey area of corruption law | | | |
| 146. | Avoid to be an official who responsible if there is potential law violation in budget realization | **Afraid to be blamed for breaking the law associated with corruption** | | |
| 147. | Delay approval due to doubt of certain rule's interpretation | | | |
| 148. | Fearing to the corruption law | | | **The existence of fear** |
| 149. | Blame to blurred definition of corruption | | | |
| 150. | Lack functional coherency among sub-organisation due to different motives | | | |
| 151. | Manager's interest to maintain amount of budget allocation based on previous year | **Various self-interest associated with the actors' motives** | **Fear of losing power** | |
| 152. | The interest of politician member to maintain | | | |

| No | Early Coding | Grouping of Early Coding | Open Coding | Core Codes |
|---|---|---|---|---|
| | allocation for their constituent | | | |
| 153. | Politician's unenthusiastic of the reformed budgeting system | | | |
| 154. | Support to the empowerment of parliament role in budgeting | **Politicians' fearing for losing their influence** | | |
| 155. | Blame to the mechanistic budgeting system from member of local parliament | | | |
| 156. | Comparing their ability to managers in influencing budget | | | |
| 157. | Lack of cost standardization in formulating budget of activities or programmes | **Regulation related uncertainty** | | |
| 158. | Dynamic national regulation regarding budgeting and accounting | | **Concerning an uncertain environment** | |
| 159. | Unpredicted national government's activities allocated in local government area | **Vertical government allocation related uncertainty** | | |
| 160. | Unpredictable allocation regarding province | | | |

| No | Early Coding | Grouping of Early Coding | Open Coding | Core Codes |
|---|---|---|---|---|
| | government's activities that will be conducted in local area | | | |
| 161. | Contingency revenue from vertical government | | | |
| 162. | National and province project managed by local government officer | | | |
| 163. | Unwritten justification of activities' proposed performance | | | |
| 164. | Avoidance of having explicit performance measure | | | |
| 165. | Formulating absurd performance measure | **Struggle to formulate explicit performance measure** | | |
| 166. | Focusing of performance report for internal purpose | | | |
| 167. | Performance information as formality of budget document and conformance to the requirement | | **Difficulty with complexity of performance based budgeting requirements** | |
| 168. | Compromising strategy between local political interest and central government interest | **Effort for matching allocation with given authority** | | |
| 169. | Response of decentralisation policy | | | |

Appendix 3

| No | Early Coding | Grouping of Early Coding | Open Coding | Core Codes |
|---|---|---|---|---|
| 170. | Ambiguous authority of local government | | | Struggle due to complexity |
| 171. | Blame limitation of resources as obstacle to implement performance based budgeting | Difficulty in implementing national regulation and guidance | | |
| 172. | Blame national regulator for not consider local inhabiting factor | | | |
| 173. | Difficulty to avoid immeasurable indicator of activities' performance | | | |
| 174. | Difficulty to operationalize key performance indicators stated by national government. | | | |
| 175. | Lack of local spatial planning and zoning plan that will restrict quality of planning and budgeting | | | |
| 176. | The influence of dominated party in parliament during negotiation | Modes of politician behaviour | | |
| 177. | Politicians influence for more concern to the enactment date rather than procedures. | | | |
| 178. | Submission of public aspiration resulted from | | | |

| No | Early Coding | Grouping of Early Coding | Open Coding | Core Codes |
|---|---|---|---|---|
| | council recess beyond the proper stage of budgeting | | | |
| 179. | Conflict of interest during budget discussion | | **Unsupported behavioural responses for the change** | |
| 180. | Anticipating to dynamic and inconsistent national regulation as product of rivalry interaction | | | |
| 181. | Blame to the existence of sectoral policy from central government | **Behavioural response for the lack of comprehensive reform** | | |
| 182. | Presumption the existence of unstandardized audit report from national audit board | | | |
| 183. | Utilizing two distinct of account group for budgeting and accounting purpose | | | |
| 184. | Dichotomy of expenditure budget | **Practice of expenditure prioritization based on current budget structure** | | |
| 185. | Significance of unavoidable indirect expenditure | | | |
| 186. | Dominance of indirect expenditure budget | | **Prioritisation games** | |
| 187. | Indirect expenditure as prioritization tools | **The importance of certain expenditure type** | | |
| 188. | Consequence of past | | | **Playing the** |

Appendix 3

| No | Early Coding | Grouping of Early Coding | Open Coding | Core Codes |
|---|---|---|---|---|
| | decision | | | **power game** |
| 189. | Direct expenditure prioritization after calculating unavoidable expenditure | | | |
| 190. | National interest as a prioritized allocation more than local government interest | | | |
| 191. | Province government policy as justification tool when managers disagree with politician interest | **Disagreement contest** | | |
| 192. | Intervention of politicians in preparing budget policy through proposed budget of operational manager | | | |
| 193. | Politician disagreement for getting opportunity to influence other policy | | **Playing the game of dominance** | |
| 194. | Allocate allowance for flexibility reason by CFO while negotiation exist intensively | **Give and take game** | | |
| 195. | Local budgeting task force (TAPD) accommodate politicians' interest for getting approval of certain allocation | | | |
| 196. | Operational manager play | | | |

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| No | Early Coding | Grouping of Early Coding | Open Coding | Core Codes |
|---|---|---|---|---|
| | power for influencing allocation | | | |
| 197. | Accrual system was an voluntary reform and become mandatory choice after 15 year reform | **Relying on data availability and national regulation** | **Dependency on regulated reforms and data availability** | **Utilising procedural compliance for internal control** |
| 198. | Regulation about performance planning was set late compare to budget and accounting rules. | | | |
| 199. | Lack of past performance data | | | |
| 200. | Unsupported validity of past accounting data | | | |
| 201. | Performance measures was developed mainly based on regulated guidance | | | |
| 202. | Performance report was perceived as consequence of political reform | **The perceived reform and motivation of reform** | | |
| 203. | Technical accounting reform was developed separately with performance budget. | | | |
| 204. | Conform to national requirement as motivation of reform | | | |
| 205. | Unstandardized process of | | | |

Appendix 3

| No | Early Coding | Grouping of Early Coding | Open Coding | Core Codes |
|---|---|---|---|---|
|  | budget verification | **Unstructured budget verification** | **Unstructured approach and legitimacy based control** |  |
| 206. | Subjectivity of verification |  |  |  |
| 207. | Blurred given authority from central government |  |  |  |
| 208. | Strained interaction in budget verification |  |  |  |
| 209. | Overlapping given authority |  |  |  |
| 210. | Unmatched given authority with local environment |  |  |  |
| 211. | Playing rigid document | **Control as mechanism to establish legitimate procedures** |  |  |
| 212. | Effort to implement the reform of accrual accounting system for acknowledgment |  |  |  |
| 213. | Legitimate procedures oriented monitoring |  |  |  |
| 214. | Internal control focused on compliance of regulation |  |  |  |
| 215. | Internal audit was ordered by top leader to investigate certain case |  |  |  |
| 216. | Monthly control of unit based on realisation of budget |  |  |  |

# Glossary

Bhineka Tunggal Ika    : Indonesia national motto

BANGGAR    : Local parliament budgetary board

RPJMD    : Local government strategic plan

SKPD    : Organisational unit of Indonesia local government

TAPD    : Executive budget task force

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