

NEW PUBLIC MANAGEMENT, ACCOUNTING REFORM, AND INSTITUTIONAL PERSPECTIVE OF PUBLIC SECTOR ACCOUNTING IN INDONESIA

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This study discusses the development of New Public Management (NPM) and accounting reform in public sector organization. The first part of this study discusses the theoretical concept and characteristics of NPM as well as the relevant factors behind the development of NPM around the world. The second part tries to relate accounting reform in the context of NPM. Special attention is also given to complexities emerge in the implementation of accounting reform, that is a movement from single entry and cash basis accounting into accrual based and double entry accounting systems. At the end, this study discusses the institutional perspective in sociology relevant to public sector accounting, specifically correlated to the process of accounting reform. As Indonesia now is in the process of implementing autonomy and decentralization policies which one of its initiative is putting accrual double entry accounting systems in place, this study also specifically highlight the process of accounting reform in Indonesia.

Keywords : New Public Management, Accounting Reform, Accrual Accounting, Institutional Accounting.

INTRODUCTION

The emergence of New Public Management (NPM) as a movement of public sector reform in European and Anglo-American countries has made several implications to accounting, budgeting, and performance management in public sector organizations. Historically, NPM viewed as a modern approach of management in public sector arose in UK in 1970s as the reaction toward the insufficiencies of traditional public administration approach. The emergence of NPM was really a major shift from traditional public administration into public management system characterized by greater attention toward the achievement of result and accountability of public managers through making more flexible organization, reduced government function, privatization and other forms of more pro-market oriented governance practices (Hughes, 1998, pp. 52-53). Performance based budgeting, accrual accounting, and other varieties of private-like business management style, then, are adopted by public sector organizations under the banner of New Public Management.

New Public Management undoubtedly had become an important part of global process in reforming public sector management. The implementation of NPM can be seen as a reform in public administration and management that performs de-politicization of authority, decentralization, and devolving management to energize democratization (Pecar, 2002). One of the most prominent aspects of NPM is public sector accounting reform. It's strongly believed that - in one side - the use of accrual accounting technique for public sector institutions is a direct impact of NPM adoption, but it is also not remarkable to conclude that public sector accounting reform is a critical NPM's initiatives that its absence will lead NPM adoption toward its failure. Consequently, in achieving more transparent and accountable governance in front of their stakeholders, during the past two decades, couples of public sector organizations have moved their cash basis accounting toward accrual one. This movement was also intended to make more effective financial management and reporting, so the legislatures, the public and other users of public financial information would be in a better position to judge public sector financial performance.

THE DEVELOPMENT OF NPM AS A GLOBAL MOVEMENT

To some extent, NPM represents positive response of public sector institutions to contemporary global development. At least, its emergence wants to reconcile previous model of managing governmental organizations, known as public administration paradigm (PAP), characterized by highly bureaucratic style, less innovative, irresponsive, inefficient and ineffective. In fact, however, the idea of New Public Management (NPM) is not absolutely new (Hood, 1995; Gruening, 2001; Ferlie and Steane, 2002). Gruening (2001), for instance, claimed that it was originally developed in UK in 1970's under

Prime Minister of Margareth Thatcher. In the early 1980's the idea of NPM was also evidently implemented by some Californian municipals as a curbing measure for their severe tax deficit. Further more as reported by Borins (1998), most of Commonwealth Countries, to some extent, have implemented NPM. Countries like UK, New Zealand, Canada and Australia are even known as major promoters of NPM. The involvement of OECD countries and many other international agencies like United Nation, World Bank, International Monetary Fund (IMF), Asian Development Bank, USAID, AUSAID, JICA, and CIDA, in promoting NPM had encouraged it to become even a more global movement in managing public sector (Jones and Kettl, 2003). As a result, for the time being, NPM embraces not only OECD member countries, but includes also Latin American countries, Scandinavian countries, Germany, Switzerland, Italy, Asian Countries, and African countries.

What lessons that can be learnt from the emergence of NPM? Several factors can be explained why NPM emerged in this period. Rosenbloom and Kravchuk (2005), for instance, reported that its emergence correlated closely with the lack of traditional bureaucracy under traditional public administration in the decade. Using US context, they noticed that in 1993, only 20 percent of public believed that the federal government has effectively and efficiently achieved its goals. This condition was even worsened by the fact that up to the late of 1970s the Americans were conferred by weakened governance under the same regime of public administration. Under this regime of governance, for instance, problem of public resource mismanagement characterized almost any level of government. The tax payer revolts set out from California to Massachusetts by 1991 was also a critical factor for Americans to see that their government, regardless the levels, needed drastic reform and even-in the language of Osborne and Gaebler (1992)- "reinvention".

The US, however, was in a fortunate position since New Zealand, Australia, United Kingdom and some other countries under OECD had previously implemented NPM (Rosenbloom and Kravchuk, 2005). Under Clinton-Al Gore's administration, the US Government, then adopted principles of the model in what they introduced it as "New Performance Review" or NPR. Another significant factor was the revival of liberal ideology, or as mentioned by Hood (1995) as the "new right" that-in parallel with technological advancements, especially in computer, communication, and transportation - had drove globalization. In a more globalized world, libertarian based ethics such as democracy and pro-market economic orientation were easier to proliferate internationally (Borins, 1998; Barzelay, 2000; Hope, 2001; Turner, 2002; and Jones, 2003). In the US perspective, the birth of NPM with its emphasis on transparency and accountability strengthens Freedom of Information Act of 1966. Consequently, NPM as a pro-market oriented initiative that strongly support the ideas like decentralization or autonomy, customer focused, quality improvement and competition for efficiency, as well as privatization of public sector, without difficulty has been developing to become the only international model of managing public sector.

Though those underlying factors behind internationality of NPM seem to be generally accepted among NPM observers, Hood (1995) might be one of few researchers remaining in disagreement with most of them. Using NPM implementation data from OECD member countries in 1980s as the basis of its analysis, his investigation came to a conclusion that it is still non existence of a general grounding that can be used to distinguish high versus low intensive NPM adopters. In his language, there are so many "variations on a theme". In this problem, Hood (1995) is in accord with what is argued by Mathiasen (1999) that there is no single prescription for success in implementing NPM. The differences in political, economic, social and cultural setting among countries adopting NPM may result in different accomplishment. Accordingly, it is rather perilous to believe that in their implementation, NPM or other management techniques and practices like accounting can be fully immune from contextual or cultural influences. What is more reasonable is to view a technique or method like accounting to be as a socially constructed reality. Consequently, recognizing distinctive cultural characteristics of any nation, or even any organization where new techniques or methods will be implemented is indeed critical.

Unfortunately, however, though current literature about NPM is relatively extensive, the definition of NPM that within public sector literatures is also known as "post bureaucratic", "managerialism", "market based public administration", "entrepreneurial government" (Lynn, 1998), "new paradigm", "marketization of public sector", "public sector reform", "privatization" and also "accountingization" (Hood, 1995) is not easily found. It is only few literatures that provide comprehensive NPM definitions. The major works on NPM, for instance Barzelay (1999), Behn (1998), Ferris and Grady (1998) preferred to characterize NPM in some ways than to give a clear and comprehensive definition. Barzelay (1999), for instance, in commenting to a bit metaphorical definition of NPM proposed by Hood (1991) gave even more circular impression than a clear comprehensive idea of NPM. Thus, it is easier to find list of its characteristics that to get a piece of its clear definition of NPM.

The OECD report as well as the work of Van Gramberg and Teicher (2000) as cited by Anderson et. al. (2002) might be the two among few literatures of NPM that clearly define NPM. According to the Public Management Committee of the OECD, NPM is defined as "a new paradigm for public management that aimed at fostering a performance-oriented culture in a more decentralized public sector" (Mathiasen, 1999). In a bit parallel, Van Gramberg and Teicher (2000) define NPM as:

"transformation of the culture of the public service from a rules-bound bureaucracy to an entrepreneurial and performance-based focus in which the public service is at arms length from the state" (Anderson, Griffin and Teicher, 2002).

From those definitions, especially their emphasis to "paradigm" and "culture", it seems that the targeted aspects of local government through NPM are not merely improvement in technical fields, but also in fundamental fields like

organization culture. Consequently, the scope of NPM is so pervasive and it may be speculated, then, that a wide array of programs may be performed under the name of NPM. Following that, local government budgeting and accounting system improvement or reform as a crucial foundation in transforming local government toward more accountable government becomes an indispensable part of the NPM.

NPM AND PUBLIC SECTOR ACCOUNTING REFORM

The Public Management Committee of the OECD has defined the New Public Management as a new paradigm for public management that aimed at fostering a performance-oriented culture in a less centralized public sector (Mathiasen, 1999). Rosenbloom and Kravchuk (2005) identified NPM to have close relationship with public administration. According to them public administration has two main approaches namely traditional and managerial. NPM is merely a branch of managerial approach in public administration.

Moreover, the Public Management Committee of the OECD as cited by Mathiasen (1999) identified five attributes by which NPM can be characterized, those are:

1. A closer focus on results in terms of efficiency, effectiveness, and quality of service
2. The replacement of highly centralized, hierarchical structures by decentralized management environments where decisions on resource allocation and service delivery are made closer to the point of delivery
3. The flexibility to explore alternatives to direct public provision and regulation that might yield more cost-effective policy outcomes
4. A greater focus on efficiency in the services provided directly by the public sector, involving the establishment of productivity targets and the creation of competitive environments within and among public sector organizations
5. The strengthening of strategic capacities at the center to guide the evolution of the state and allow it to respond to external changes and diverse interests automatically flexibly, and at least cost.

Some other authors further identified characteristics of NPM to include like:

- Privatization;
- Deregulation;
- Encouraging competition;
- Taxpayers and ministers as customers (principals);
- Performance management through which outcomes can be measured

Looking at the characteristics of NPM as well as its underlying theories, it is not difficult to conclude that to succeed in adopting NPM, there should be prerequisite conditions, such as the existence of:

1. Organizational change occurrence leading to facilitate competition to achieve higher efficiency
2. Organizational openness climate, and
3. Quality assurance mechanism.

Accordingly, accounting is indeed essential. Its technical role, for instance, relates directly with the core of various types of NPM initiatives or programs such as decentralization, transparency and accountability improvement, performance based management, privatization, and so forth. In a slight metaphoric language, Hood (2000), asserted that accounting is the key element in any attempt of increasing rationalism promoted by "econocrats"¹ and even "accountocrats". Though - in this case - he treated accounting merely as a technical tool to achieve the goals of NPM, but at least he had tried to show the unbreakable link between the doctrinal element of NPM and its implications on accounting.

The introduction of NPM obviously tends to create opportunities and demand where accounting eventually gets its own place. The emergence of local government's staff consciousness toward cost data and financial information in official decision making, for instance, will eventually affect their understanding about basic functions of government in general, and in the context of NPM in particular. In more particular context, there will be better understanding about the critical role of cost and financial information in achieving governmental entity's objectives or goals. Subsequently, this understanding will help them to have more positive conducts concerning information.

The Scope of the Local Governmental Accounting Reform

There are differences among NPM observers in using the term "accounting reform". Andrews (2004), for instance, used it to epitomize the adoption of performance based budgeting (PBB) systems by the United States local governments. Meanwhile, Caperchione (2003) and Christiaens (2003) preferred to utilize it as a change in local government accounting systems from "cameralistic" and cash basis to business-like model (double entry and accrual basis). Nevertheless, they share a common understanding that the terminology connotes to the meaning of newness, improvement, or implementation of an object having extensive impacts to the existing condition. Thus, it is believed that the accounting reform will come not only with technical adjustment, but also with behavioural and organizational adjustments.

¹ Econocrats is terminology used to represent bureaucrats coming from economic background, whereas accountocrats are bureaucrats come from accounting background.

TABLE
Doctrinal Elements of New Public Management

No.	Doctrine	Typical justification	Replaces	Operational significance	Some possible accounting implications
<i>PS distinctiveness</i>					
1.	Unbundling of the PS into corporatized units organized by product	Make units manageable, and focus blame; split provision and production to create anti-waste lobby	Belief in uniform and inclusive PS to avoid underlaps and overlaps in accountability	Erosion of single service employment; arms-length dealings; devolved budgets	More cost centre units
2.	More contract-based competitive provision, with internal markets and term contracts	Rivalry as the key to lower costs and better standards; contracts as the key to expiating performance standards	Unspecified employment contracts, open-ended provision, linking of purchase, provision, production, to cut transaction cost	Distinction of primary and secondary public service labour force	More stress on identifying costs and understanding cost structures; so cost data become commercially confidential and cooperative behaviour becomes costly
3.	Stress on private-sector styles of management practice	Need to apply proven private-sector management tools in the public sector	Stress on PS ethic fixed pay and hiring rules, model employer orientation centralized personnel structure, jobs for life	Move from double imbalance PS pay, career service, unmonetized rewards "due process" employee entitlements	Private-sector accounting norms
4.	More stress on discipline and frugality in resource use	Need to cut direct costs, raise labour discipline, do more with less	Stable base budget and establishment norms, minimum standards, union vetoes	Less primary employment, less job security, less producer-friendly style	More stress on the bottom line
<i>Rules vs discretion</i>					
5.	More emphasis on visible hands-on top management	Accountability requires clear assignment of responsibility not diffusion of power	Paramount stress on policy skills and rules, not active management	More freedom to manage by discretionary power	Fewer general procedural constraints on handling of contracts, cash, staff, coupled with more use of financial data for management accountability
6.	Explicit formal measurable standards and measures of performance and success	Accountability means clearly stated aims: efficiency needs hard look at goals	Qualitative and implicit standards and norms	Erosion of self-management by professionals	Performance indicators and audit
7.	Greater emphasis on output controls	Need for greater stress on results	Stress on procedure and control by collaboration	Resources and pay based on performance	Move away from detailed accounting for particular activities towards broader cost centre accounting; may involve blurring of funds for pay and for activity

Source: Adopted from Hood (1995, p. 96).

Using the Indonesian context, for example, local government accounting reform implemented formally since 2001 has not been merely a series of adjustments in accounting technicalities. In fact, it covered systemic, legal, organizational and behavioural improvements that have been tried to be carried out simultaneously. The idea of sound internal control that previously understood as only having legal implications now is to be understood completely with its informational as well as organizational implications.

Moreover, preparing local government budget that formerly - from legal point of view - could be carried out without prerequisite for involving so many parties outside the government bodies, currently-based on the new regulations-such practice can be categorized as illegal due to the absence of participation from the external parties. Thus, it is more reasonable to believe that in a country like Indonesia, where eradication of corruption, collusion and nepotism (KKN) is still problematic, accounting reform may have to be performed carefully as many possible affected parties will attentively observe its performance in measuring its real consequence toward their current interest. This is highlighted clearly by the fact of growing number in legal cases concerning allegation of corruption or abuse of public resources conducted by local officials and/or local parliament members in Indonesia since the decentralization era.

LESSONS FROM OTHER ACCRUAL ACCOUNTING SYSTEM IMPLEMENTATIONS

Considering such complexities, albeit attractive NPM benefits may lead number of governments to implement it instantly, empirical investigations produced extensive findings that not every NPM adopter, more specifically that conducted accounting reform, got its own success. Some of them failed as result of technical incompetence, others due to legal constraints, lack in political support from organization's key persons, and some others due to problem of leadership that lead them to be in less organized. Christensen (2003) reported that the government of New South Wales (NSW) Australia achieved its own success in implementing accrual basis accounting is a result of good combination between a qualified work of international consultant and organizational high degree of readiness to change. The most important element of NSW's readiness to change is its support from its key important persons. This factor is apparently evidenced by a clear political agenda both in the level of involving political institutions, and a clear policy making in the level of individual actor's jurisdiction.

Other study on public sector accrual accounting tried to investigate implementability and implications of the issuance of GASB Statement No. 43 titled "Basic Financial Statements-and Management's Discussion and Analysis-for States and Local Governments in the United States was conducted by Durler, Carment, and Kennett (2002). As it is known, the statement came with introduction of Government-wide Financial Statements Based on Full Accrual Accounting (Durler, Carment, and Kennett, 2002) that put any state and local government in U.S. to modify existed fund accounting system to accommodate the newer requirements. As such, a modified accrual accounting model is technically introduced altogether with the statement to link between the old fund systems and the government-wide financial statement one. This study found that instead of reducing difficulty in preparing

statement according to GASB Statement No. 34, introduction of modified accrual basis as a bridge to link the old and the new system, in reality, even complicates the implementation at the book keeper level. More-over, fund accounting system emphasizing intra-period and neglecting fixed asset recognition was also another impeding factor in the implementation of the Statement.

If performance information that may be produced through financial and management accounting is successfully developed and utilized by a local government, for instance, the space for conducting reform space within that government may be enhanced, and consequently, the corresponding government will be in a better position to conduct more sophisticated and complicated works. Thus, the success or the failure in development and utilization of performance information-to some extent-depends on the success or failure in the implementation of a more appropriate budgeting and accounting systems. Lapsley and Pallot (2000) tried to accentuate how important accounting system, specifically accrual or businesslike accounting system, in the context of pursuing new public management goals by referring to Brash (1998), and also McCulloch and Ball (1992) who have been giving great interest to the utilization of accounting information in managing public sector.

The centrality of accounting in public sector management change was also clear from the assertion of McCulloch and Ball (1992) who point out that:

“Accrual accounting was not seen primarily as an external reporting issue but rather as an integral part of overall management change. In particular, it was thought to contribute to better asset management and full costing of services on a comparable basis with the private sector, allowing rational choices to be made between competing suppliers.”

In conclusion, understanding about influencing factors behind success or failure of the introduction of a new budgeting and accounting systems, specifically in the context of local government, is undeniably vital.

Other works on budgeting and accounting reform in the context of local government are the works of Rosenberg, Tomkins, and Day (1982); Rosenberg (1989); Cochrane (1993); Maijoo (1996); Prodjojarjono (1999); Giroux, Jones and Pandlebury (2002); Christiaens (2003); Caperchione (2003); Andrews (2004); and Gore (2004). Caperchione (2003), for instance, investigated 23 Italian local governments in his attempt to understand influencing factors related to the success or failure of Italian local government accounting reform. The result of the study showed that there was a relatively significant gap between what were initially expected from the reform and what were actually achieved. In this regard, two related problems could be identified such as communicational efficacy and fair presentation.

If it is compared to what ought to be performed by contemporary Indonesian local government accounting reform mentioned in some regulations², the goals of both Italian and Indonesian local government accounting reforms are relatively similar. They are in common to equip public managers and other local government constituencies with relevant and adequate information as a part of public democratization and improvement of the local government performance. To certain extents, they even share other commonalities in form of nonexistence of governmental accounting standards produced by independent accounting standard setting bodies, and their model of accounting is not fully accrual bases. The birth of Government Regulation No. 24 of 2005 concerning Governmental Accounting Standard now is in process of effective implementation that should be in place on the early of 2007. Another study concerning accounting reform using European context is the work of Christiaens (2003). He conducted a study based on Belgian local governments accounting reform started since 1995. The reform revealed a major shift from cameralistic accounting toward what so called business-like accrual accounting systems. The main objectives of the reform are to supply objective, complete and transparent information required by local government officials and their stakeholders, as well as to provide public sector managers, particularly who are in local governments, with a useful system and tool taken from private sector to improve their operational and managerial performances.

Like the case of Italian local government accounting reform as reported by Caperchione (2003), the Belgian reform could be considered as relatively not successful even after couples of years of implementation (Christiaens, 2003). According to Christiaens (2003), a number of explanatory reasons could be given to answer why such a reform was not as initially expected by its promoters. First, there was a conflict between budgetary accounting system and traditional financial accounting system resulted in a difficult situation to combine required local government financial reports. Second, although clear guidelines to operate the new system had been provided, their availability and their clarity were still not sufficient. Congruently, this produced obstacles in its implementation and reporting. Third, none of specific audit designed to evaluate success or failure of reform implementation. Last, there is only limited demand for using local government financial reports both by citizens and other stakeholders. Hence, it can be implied that to achieve success in accounting reform, there should be real demand for accounting information produced from new systems by interested parties. Absent in that will affect to uselessness of the product of reform that eventually degrades its significance

² See for example Indonesian Law No. 22 /1999 later amended by Law No. 32/2004, Indonesian Law No. 25/1999 later amended by Law No. 33/2004, Government Regulation No. 105/2000 later amended by Government Regulation No. 58/2005, the Decree of Minister of the Home Affairs (Kepmendagri) No. 29/2002 later amended by Rule of Minister of the Home Affairs (Permendagri) No. 13/2006, Indonesian Law No. 17/2003, Law No. 15/2004, as well as Indonesian Law No. 1/2004.

of the reform its self. The explanatory factors behind unsuccessfulness of both accounting reform in Italian and Belgian local government might be as a good lesson for any government to conduct accounting reform.

Lapsley and Pailot (2000) remarkably investigated the role of accounting information in the context of local government change in U.K. and New Zealand. Using four local authorities (two for U.K. and two for New Zealand) as cases, they identified that the mode in utilization of accounting information within those two countries local government reform seems to be as continuum, from merely partial to integral. In new Zealand whose local government organizational change has been more structural and radical, accounting and financial information is integrated strongly with the initiation of almost any new reform initiative. Meanwhile, in U.K., especially Scottish local authorities, accounting and financial information is weakly utilized by promoters of new public management initiatives. Their in depth investigation found two important findings. First, the different in the degree of utilization of financial and accounting information between those two countries local government relates to the difference in quality assurance implementation as well as the improvement of organizational culture within local government organizations. In this regard, New Zealand is relatively higher than U.K. Second, the role of fresh, younger, more visionary local government accounting staff externally recruited from private sector is very significant. Thus, it can be envisaged that a local government with difficulty to strictly separate between political and managerial domains, as well as difficulty with recruiting new bright and more visionary accounting staff, and entrapped by old and unsupported existing organization culture will have been in trouble to utilize more intensively accounting and financial information and-ultimately-to conduct significant changes or reform in its forthcoming periods.

NPM IMPLEMENTATION AND CONTEMPORARY GOVERNMENTAL ACCOUNTING REFORM IN INDONESIA

Along with the two laws (Law No. 22/1999 and Law No. 25/1999 later amended by Law No. 32/2004 and Law No. 33/2004), Indonesian Government implemented another measure to make Indonesian local government institutions leaner, more flexible, and higher responsive both to market and local constituents' interest. In this context, local government budgeting and accounting systems are essential elements as they can be able to provide organizational control and - to some extent - political justification of their activities to external and internal parties. Moreover, government executives and other interested parties will be benefited by opportunity to utilize information from new budgeting and accounting system in their effort to make more accountable, reasonable and better economic decisions. Thus, the existence of good governmental budgeting and accounting systems in the context of NPM is not only optional, but a must. In the words of Guthrie, Parker and English (2003) as well as Broadbent and Laughlin (1998), the contemporary Indonesian public sector accounting reform entered to what they put it as "New

Accounting”, a product of NPM in the domain of public sector accounting that philosophically based on “managerialism” and strong orientation to accountability in management.

There are several areas in which the old and the new Indonesian governmental budgeting and accounting systems can be distinguished. In managing public resources, for instance, the prior system based on “MAKUDA³”, emphasizes intensively on legal and administrative aspects. From decision usefulness point of view, therefore, the local government financial management under this manual had only little information that can be developed by local government executives as well as local parliament members and public in general to make more reasonable plans and better decisions. Moreover, the manual guided Indonesian local governments to prepare their own budget based on what is known as “line items and incremental” approach. In this mode of budgeting, a government’s spending is basically partial or fragmented. It stands more on its own budget accounts rather than on its interconnectedness with the whole existence of budgeted activities toward a unified certain performance targets. Another limitation of this old fashioned budgeting model is its lack in information associated with performance measures or indicators of proposed activities. Without this, the government is - in fact - not in a good position to effectively control and evaluate its programs and activities. Failures in having effective control and evaluation will ultimately limit its flexibility to improve its functions and services produced. Furthermore, in guiding how to record and report financial transactions, the MAKUDA instructed local governments to use cash basis within a “single entry” book keeping model. As a matter of fact, this particular approach is claimed by many experts, (see for example Blondal (1988), Craner and Jones (1990), Dean (1988 and 1999) and Ghartey (1985) as well as Rahaman and Lawrence (2001), as having serious weaknesses, such as lack in disclosure (less information content), too legalistic in its orientation, and less supportive to decision usefulness principles.

In contrast, the newer budgeting and accounting systems are actually *business-like* or *private sector-like* systems adopted by public sector. Based on Government Regulation No. 105/2000 and the Decree of Minister of the Home Affairs No. 29/2002, local government should implement performance based budgeting in developing its budget, and using double entry with modified cash basis in its accounting approach. But later, after rising of Government Regulation No. 24/2005 about Governmental Accounting Standard, the basis of accounting recommended is accrual accounting for recording assets, liability and equity accounts, and cash basis to record revenue, expense, and financing accounts. Thus, based on Government Regulation No. 24/2005 the approach to accounting and budgeting system in Indonesian local government is accrual for accounting but still cash basis for budgeting system.

³ MAKUDA is Indonesian acronym for “*Manual Administrasi Keuangan Daerah*” or Local Government Financial Administration Manual. The manual was developed in 1980 by the office of MoHA in relying to Law No. 5 of 1974 as well as Government Regulation No. 5 and No. 6 of 1976, and implemented in 1983 (Prodjoharjono, 2003).

Obviously, the paramount objective of implementation performance based budgeting, double entry and accrual basis in its accounting approach is particularly designed to produce reports with more disclosures, higher level of auditability, understandability, and comparability. The new systems are not only more compatible to the principle of decision usefulness, but also to the principles of public information right and accountability. Accordingly, it supports current trend in local governments to initiate the implementation of standardization, performance measures (indicators), and performance auditing for their regular activities.

Moreover, Prodjoharjono (2003) in Maruto, et. al. (2003) tries to summarize several points where the old and the new budgeting and accounting systems differ. Concisely, the old budgeting system divides local government spending budget accounts into just development (project) accounts and routine accounts. Unfortunately, however, there is no a clear definition for differentiating between those two categories of accounts. In contrast, the new system employs five spending budget accounts; those are general administrative accounts, operating and maintenance accounts, capital expenditure accounts, emergency expenditure accounts, and bequest expenditure accounts with each clear definition. Not like the old system that does not recognize the difference between public purpose expenditures and personnel purpose expenditures, the chart of accounts in the new system distinguishes those types of expenditures. Consequently, public in general now is in a better position to compare between the proportion of the local government budget used for public purposes and those for personnel purposes. Further-more, while the old system follows ceiling principle in expending local government money, the new one applies what so called as deficit budgeting principle. Under the latter principle, it is possible to have deficit in budget as far as it is specified in advance, and caused by activities that particularly planned to achieve committed performances. As a consequence of applying deficit budgeting principle, the new budgeting system has three - instead of two - major types of budget accounts, those are revenue account, expenditure or spending accounts and financing accounts. The last accounts are specifically designed to facilitate financing plan as result of budget deficit or surplus.

Because new accounting system is actually accrual system and also double entry, thus the array of financial information that can be obtained is not limited about cash, but also other accounts such as receivable, inventory, plant and equipment, and also payable. The new system also produces more complete financial statement compared to the old one. Not like the old system that produced only budget realization report, the new system produces budget realization report, balance sheet, cash flow statement, and note to financial statement.

However, it should be reminded that compared to the old Indonesian local government accounting systems, the newer systems is undeniably more complicated, both conceptually and technically. For instance, the concepts of "performance", "accrual", as well as "double entry" brought by newer

systems are not always easy to be understood by most of local government officers who have been so habitual with former model, i.e. cash accounting. What are perceived as simple themes by accountants in general can be - definitely - confusing and even hard to be understood and implemented by local government officers who are unfamiliar with arrays of new concepts and jargons in budgeting and accounting brought by NPM.

INSTITUTIONAL PERSPECTIVES OF ACCOUNTING REFORM

From organizational perspective, the introduction of double entry accounting, accrual basis of accounting and performance based budget within Indonesian local governments under NPM, or is afterward known as "Indonesian accounting reform" represents an organizational change, that is "the process by which organizations move from their present state to some desired future state to increase their effectiveness" (Jones, 2001). As Jones (2001) identified four areas normally targeted by an organizational change; those are human resources, functional resources, technological capabilities, and organizational capabilities, the reform will provide local government managers with not only legal information, but also more relevant, complete, accurate, in time, and transparent information that they need to manage or govern the local government well. Following that, it will be easier for the managers of local governments to improve the quality of their human resources, functional resources, technological capabilities, and organizational capabilities.

However, it should be reminded that those four areas are actually interdependent in nature. Thus, it is not always easy to recognize effects of an organizational change solely in a certain area without considering other effect on other areas of organization. If we put the current Indonesian accounting reform as an example, the effort of Indonesian local governments to shift from the old budgeting and accounting system toward the new one, especially in human resources aspect, will result in new activities like new investment in training about new systems, socialization of new culture and procedures in order to make better match between new routines required by new systems and old people skill and habitual, and also changing organization norm and values as effect of new organizational task relationship. Series of ideological values introduced by NPM such as transparency, competition among internal organization units, performance orientation, contracting out and the utilization of market price as one and the only fair measurement in exchange transactions of goods and services are believed to be enablers for local government's staff to change their behaviour and culture.

Considering that MAKUDA had been implemented by Indonesian local governments for more than 20 years. In so doing, it had been deeply institutionalized. Yet, it had produced a certain type of fixation and resistance to change. Thus it is not unusual to find phenomena of organization inertia toward the implementation of new budgeting and accounting systems.

The situation of institutionalized rule of the game, however, is dynamic. As a result of continuing process of institutionalization which entails conflict-

ting and resolution of competing interest among parties, either internally or externally, any organization is essentially in the process of competing between institutionalization and deinstitutionalization of what are known as *organization routines* or *rituals* (Burns and Scapens, 2000; Carpenter and Feroz, 2001). The way an organization's struggle to make new innovated techniques as its own *rituals* is labelled as *institutionalization*, which is really a social process by which organization's programs, structures and policies obtain "rule-like-status" as legitimate parts of the organization.

So far, there was only limited number of previous works which particularly exploring NPM in Indonesia, and it was even more limited to find scientific works regarding current Indonesian local government reform based on New Institutional Sociology (NIS) perspective. Certain studies about public sector in Asian region had included Indonesia, but in very limited intensity. Most of the works on current Indonesian budgeting and accounting reform, however, are part of NPM official reports that particularly documented for the interest of international financial donors providing technical and financial assistances to Indonesia to reform its public administration under the banner of public sector modernization scheme or public sector reform. So far, none of them is institutionally in approach. A little bit particular are studies performed by Prodjoharjono (1999), Mardiasmo (1999) and Bastian (1999). Prodjoharjono, for instance, specifically investigate Indonesian local government accounting by employing Luder's contingency model as the basis of analysis. A bit closer to this study is Mardiasmo's work (1999) exploring the impact of Indonesian central and provincial government intervention on local government budgetary management.

Accounting Reform in the New Institutional Sociology Perspective

Organizational change is a central issue within organization theory, management and increasingly also, accounting (Quattrone and Hopper, 2001). Within organization studies, organizational change seems to be a perennial interest (Styhre, 2002). However, it should be realized that institutional theory, according to Greenwood and Hinings (1996) is not a theory of organizational change, but it provide a good basis to understand organizational change due to its ability to explain about organization similarization and the stability of organizational arrangement in a given population or field, or what is mentioned earlier as institutionalization.

Institutionalization, in fact, is a continuing process. An environmental element that has been institutionalized is actually in challenged by other element of institutional environment. Thus there will be a period of instituteonalization as well as deinstitutionalization and reinstitutionalization. Jenning and Greenwood as mentioned in Westwood and Clegg (2003) identified four stages of institutionalization process, namely innovation, objectivecation, legitimation and diffusion, and deinstitutionalization. The condition of fully institutionalized, according to them, is achieved when a new practice or routine gets in the peak, that is between the third stage and the fourth stage and turns out to be *institution*. Put in its totality, owing to

the internal dynamic of organization as well as its environmental instability, the situation of fully institutionalized or when some thing has become *institution*, is basically temporary in nature. Normally, as quick as a thing reaches its instituteonalized status, a tendency of destabilizing immediately starts to be a new force for finding next *innovation* as the new resolution. In the logic of Lewin's force field theory of change, the longevity of institutionalized situation will totally depends on the balance between the power for change and the power of resistance (Jones, 2001).

Institutionalization, according to Burns and Scapens (2000), is naturally cumulative and entails phases of enacting, encoding, reproducing and institutionalization circularly. What should be remarked here is that in each phase or stage of institutionalization, an organizationlike a human – socially thinks and shapes as well as it is shaped and modified socially to get the best acceptance toward new rules or routines. As a result, phenomena similar to fixation, organization inertia or resistance, aggressive, or – in the contrary – consent and compliance become evident during the process. In this specific stance, institutional theory recognizes what is termed as *organizational imprinting*, a phenomenon when - for a relatively long period - a routine is viewed and treated by an organization members as taken for granted and the only available model of thinking and doing some thing (Carpenter and Feroz, 2001).

Owing to the fact that organization is also an externally resource dependent entity, the dynamic of such internal organization affairs will usually be environmentally mixed with *isomorphism*, a progression in which an organization homogenizes its self with its environment. DiMaggio and Powell (1991), as well as Carpenter and Feroz (2001), tried to define isomorphism as “a process that causes one unit in a population to resemble other units in the population that face the same set of environmental conditions”. Put it organizationally, environmental isomorphic power will tend to increase homogeneity of an organization and lead it to become less unique compared to others in the same domain. Thus, bringing the concept of organizational imprinting and isomorphism altogether, new budgeting and accounting systems may be organizationally imprinted, but it may also be a sort of isomorphic element. This means that in one point of time, current budgeting or accounting system might be treated as one and the only way of managing organization's financial resources that tends to resist from any new budgeting or accounting innovation, but in the next instance, it is a part of the organization method of acquiring new institutional legitimacy, either internally or externally (Carpenter and Feroz, 2001).

Isomorphism as it was mentioned earlier, is performed either by coercive, mimetic, or normative mode. *Coercive isomorphism* takes place when an organization changes its routines, for instance its procedures, management style or other rituals as result of other organization's dictating power. The dictating power may be in form of legal regulations or threatening power to supply or to stop vital resources required by the organization. Current local government budget and accounting reform in Indonesia may also be put in

these intricacies. There is a situation, however, when the innovation or change is not basically steered by the organization's key persons' own prophecies, but comes from other organization's success in managing innovation. This is what institutionalists label it as *mimetic isomorphism*. Thus, mimetic mode of isomorphism exposes imitative-motive innovation, and not internally and originally developed innovation. The last mode of organization isomorphism, *Normative mode of isomorphism*, occurs when organizational innovation is primarily driven by advanced or revolutionary point of views of the organization's key persons, for instance through internal professionalization. The organization's key persons may have more advanced vision from their formal educational background, through continuing professional trainings, scientific or professional journals, magazines, colleagues, or industrial association's conferences. They steer organizational journey to develop their organization.

Based on such categorization of organization isomorphism, the Indonesian accounting reform especially conducted to implement new public sector budgeting and accounting systems seems to be as a "coercive isomorphism" rather than "mimetic isomorphism" or "normative isomorphism". A heavy legal obligation coming from upper level governmental agencies put any Indonesian local governments in a relatively limited room to turn down new model of local government budgeting and accounting from their agenda. However, it may be necessarily considered that the mode of isomorphism experienced by an organization is not always unique, but in a combination between those modes simultaneously. For a certain local government, for instance, legal obligation may be more as the early impetus than as the main motivation to which all efforts will be devoted.

Considering that the mode of organizational isomorphism, including in the public sector like Indonesian local governments, can not be isolated from the motivation of organization actors as well as influences from values deeply imprinted as result of prior institutionalization, variations in the mode of responses to institutional pressure might be found. Rather than merely looking at modes of isomorphism such as mentioned by DiMaggio and Powell (1991), Modell (2001) considers the work of Oliver (1991) to have extended analytical tools in viewing how an organization respond to its own environmental pressure. According to Oliver (1991), there are five strategies commonly implemented by an organization to respond its own environmental pressure, namely acquiescence, compromise, avoid, defy, and manipulate. Such five strategies are continuum in nature, so the movement from acquiescence to manipulate represents a progress from low passivity to high level of activeness. Based on that typology, Oliver can distinguish between coercive pressure and voluntary diffusion where the latter term is used to include both mimetic and normative isomorphism (Modell, 2001)

The last issue that may relevant with the case of accounting reform, specifically from institutional perspective, is issue about the magnitude of organization change it self. Indeed, in the term "reform" there is a basic idea of dramatic change. But it is not necessarily true that any implementation of

new technique or procedure within an organization labeled by "reform" is substantially a reform, it might be merely what Nelson (2003) mentioned it as convergent change, a mode of change to make fine-tuning as response to environmental pressure. It is far from what Styhre categorize it as "non linear change".

CONCLUSION

The greater demand for transparency, accountability, and better quality of public services has forced public sector organizations to adopt new managerial approach in managing its organization. The pressure to be more flexible, market oriented, results oriented, and customer focus has made public sector organization to move away from old model of its traditional public administration to a newer and modern approach that called New Public Management. The implication of adopting New Public Management model is the need to conduct a series of reform in public sector, i.e. accounting reform, budgeting reform, financial management reform, audit reform, as well as institutional reform. The migration to accrual accounting and double entry accounting system from cameral (cash basis) accounting and single entry is one form of public sector accounting reform. It should be realized that the accounting reform actually not just a change in technical matters, but also required change in cultural, behaviour, and institutional aspect. The accounting reform in public sector will not meet its objectives if it's not followed by capable and competence human resource, support of information technology, conducive organizational culture, law enforcement, and well designed institution.

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