Research Report

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Organization (at the time of the grant):

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Title of Research:

The Comparative Study on Accounting Reform between Japan and Indonesia: The path towards the performance-oriented government in Indonesia

Purpose of Research:
Following the prolonged economic decline and heightened fiscal burden, the Japanese and Indonesia government has introduced the New Public Management (NPM) during the 1990s with determination to trim the government and improve the efficiency and effectiveness. The central feature of reform has been the introduction of accrual accounting, which connects the reform in different areas with the main purpose to improve the transparency and accountability for performance. Japan introduced accrual accounting in central government in 2000. It was followed by the enactment of Policy Evaluation Act that provides legal framework on policy evaluation and performance measurement in the subsequent year (Kudo, 2003). In the case of Indonesia, the political reform that took place in 1998 had become a momentum for government financial management reform. Indonesian government was planning to implement the accrual accounting starting from the fiscal year of 2008, but they decided to postpone it until the fiscal year of 2010 due to the capacity limitation. To answer the call for accountability and improvement in quality of public service, Japanese and Indonesian governments also took initiative to introduce the concept of separation between policy and administration through semi autonomous agency during in 2001 and 2005 respectively, which also requires the implementation of accrual accounting in the accountability framework.
The common view – also shared by the author of this research plan – is that the introduction of accrual accounting would provide public sector organizations with a more reliable and relevant information, which would be useful for decision making in resource allocation, financial management and performance measurement. The accrual accounting is claimed to provide a stronger basis for government accountability and better measure of organizational efficiency and effectiveness (Barrett, 1993; Evans, 1995; Mellor, 1996; Funnel and Cooper, 1998; IFAC, 2002, pp. 7–10 and Athukorala, 2003). The preparation of relevant and reliable government financial and performance report would improve the transparency and accountability of government. As a result, assets and liabilities would become more manageable with the availability of accrual based information. As supported by various researches, the main feature of accrual reporting is the identification of full cost to link between cost and performance, measure efficiency and improved resource allocation (Ball, 1994; Churchill, 1992; DOF, 1994b; Evans, 1995; Slamet, 1998; Likierman, 2000; and Webster, 1998). Based on the above discussion, it is possible to argue that the accrual based information is a crucial component in performance measurement system and in efforts to improve performance. However, as Carlin (2005) argued that there are limited researches that critically and empirically address the linkage between the adoption of accrual reporting and improvement of transparency, resource allocation and performance, this research would like to dwell further on the area to answer the challenge.
Many countries worldwide have been experimenting with accrual accounting for all or some tiers of government (IFAC, 1997). In most case, the accrual accounting is also introduced in the (businesslike) semi autonomous agency. It is argued that there is a correlation between accrual based information and businesslike activities (Christiaens and Rommel, 2008); it is only when the agency itself is responsible for earning its own funds and managing it own production (businesslike), the accrual accounting and performance measurement system become relevant as in the private sector to provide essential information in managing cost and output. The question remains whether the accountability that is being implemented via 'accounting logic' is appropriate for the non businesslike organization (government bureaucratic unit).

Content/Methodology of Research: (800 words)
The research methodology includes literature review, data collection (consist of questionnaire, interview, and observation) and analysis (qualitative and quantitative analysis). Papers and dissertation will be written based on

the research for presentation on conference and submission to academic journals.

Evaluation of implementation and utilization of accrual based information in diverse public sector organizations (businesslike and non businesslike) in different countries is conducted to answer the research questions. The main focus of research is the semi autonomous agencies in Japan and Indonesia. The research also analyzes some best practices from countries such as United Kingdom.

In the first phase of research, a comparison study is conducted on semi autonomous agencies in Japan and Indonesia to analyze to what extent the nature of organization (businesslike) would influence the degree of utilization of accrual based information. The interaction between the two variables would eventually have an impact on the performance of semi autonomous agencies, as indicated by the case study in Japan and Indonesia. The nature of organization would likely to shape how it would perceive and utilize the accrual based information, which in the end, would likely to lead to performance improvement.

The data is collected through documentary sources, questionnaires, observation and interviews. The analysis is primarily based on the analysis of questionnaires, which was distributed to 101 semi autonomous agencies in Japan and 47 semi autonomous agencies in Indonesia. The interviews were conducted with top management within the Ministry of Finance of Indonesia on a semi structure basis and recorded verbatim. The comparison between the semi autonomous agencies in the two countries would provide a more comprehensive picture, considering that the semi autonomous agencies in Japan and Indonesia are both still in the early stage of the implementation and have similarities in the characteristics of organization.

The second step of research consists of research on the government bureaucratic unit (central and local) of Japan to study on how they implement and utilize the accrual based information in the transition period. As the Japanese government is still struggling with the utilization of accrual based information, it would be interesting to research the rationale of the problems to deduce and provide solutions to them. The analysis could provide argument on the significance of accrual based information towards performance improvement.

Conclusion/Observation

The main premise of decentralization emphasizes the functional segregation of the policy making and its implementation, which drives both the structural segregation of policy implementation from central governments and the functional integration of the function as service delivery partners. In this sense, decentralization has transformed the backbone of public sector governance from hierarchical to distributed governance, which is developed based on the concept of quasi contractual relationship and delegation of stakeholder management/involvement to relevant service delivery partners according to their functions.

Considering the development of new governance structure through the separation between the policy making and its implementation, and the utilization of performance and accounting information in the decision making process, this dissertation will utilize the semi autonomous agencies as a case study to answer the two research questions:

1. How can the needs and interests of the multiple, and sometimes conflicting actors and stakeholders, be represented and satisfied by the decision makers within a performance management system in a decentralized central government?

2. How does the interplay between different collectives of actors and stakeholders within organizations and the institutional external environment influence the institutionalization of central governments' action patterns within the PDCA cycle over time? Do they still have the authority and legitimacy to claim a privilege position in the networks? Can they be privileged actors in the network without undermining the discourse?

The discussion on the utilization of performance and accrual (cost) information in the PDCA cycle to improve government performance is originated from the NPM perspective. As decentralization changes governance structure and decision-making processes, it has also influenced the relationship between the central government, service delivery partners and stakeholders to quasi-contractual relationship and distributed stakeholder management/involvement through the utilization of performance and cost information in the PDCA cycle as confirmed by the hypothesis testing and case studies. Furthermore, as the public sector has a unique mechanism for the distribution of goods and services that do not follow the market model, stakeholders have significant role in performance management as constituents, tax payers, policies and service beneficiaries. The hypothesis testing and case studies confirmed the role of the performance and accrual (cost) information to develop relationship between actors and stakeholders to overcome the obstacles and limitation of organization structure, business process and strategic perspective.

Decentralization has expanded the boundaries of the performance management system of the central government and transformed the perspective of NPM to NPG.. The performance management system in distributed governance is implemented by the collaboration between the central government, service delivery partners and stakeholders in each PDCA cycle Strategic planning and resource allocation processes are not closed processes within the central government, but the central government has to set performance targets and objectives based on negotiations with the service delivery partners to develop contractual relationships, while accommodating stakeholder needs and considering the availability of financial resources. The performance evaluation is conducted by the central government, service delivery partners and stakeholders to provide feedback to the

strategic planning and resource allocation processes. The transformation from NPM to NPG has driven a more active role of stakeholders through stakeholder management and involvement in the PDCA cycle.

As the reality of public service regime has evolved, performance management has not evolved, but rather remained locked within open rational system of NPM, which has caused the dysfunction of the performance management system as shown by the case studies. It is possible to argue that the ambiguity of performance and cost information and dysfunction of performance management systems are caused by the internal and managerial (efficiency) focus on performance measurement and accounting reform As decentralization changed the governance structure, the relationship between actors and stakeholders changed and they became mutually dependant. It has also transformed the definition of performance from performance of an organization to relational performance, which is generated as a result of the relationship between actors and stakeholders. In conclusion, it is possible to argue performance management as governance since it regulates a wide variety of mechanism, process, institutions and relationship through which individuals, groups and organizations can express their interest, exercise their rights and responsibilities and mediate their differences (Nelson and Zadek, 2000). It also balances the roles, responsibilities, accountabilities and capabilities of different actors and stakeholders in society.