

**Implementing Performance Measurement Systems: Indonesian Local
Government under Pressure**

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Structured Abstract

Purpose

This research explores the drivers behind the implementation of performance measurement systems (PMSs) in Indonesian local government (ILG). It analytically assesses Indonesia's attempt to introduce a PMS by addressing three research questions: *RQ1) Do organisations in developing countries actually use PMSs to aid decision-making and help plan for future performance improvement? RQ2) Do the three isomorphic pressures exist in the development and use of PMSs? and RQ3) If institutional isomorphism is evident, can accountability exist within the development and use of PMSs given these pressures.*

Design

To assist in answering the research question, both closed and open-ended interview questions were developed. The questions were structured under four headings – accountability, performance measurement, institutional isomorphism and others. In-depth interviews were conducted in 2010 with 24 Indonesian local governments targeted using purposive sampling. Both types of local government (regional and municipal) and both localities (Java and non-Java) were represented. A cross-section of participants ensured a range of responses from low-level officials to high-level managers in functions including administrative, finance, planning and audit, were obtained.

Findings

Results determined that although employees perceived coercive isomorphism as being a driver of ILG compliance with LAKIP, many councils were still not reporting and those that were, were not doing it well. Many councils lacked management motivation with some choosing to merely mimic (mimetic isomorphism) what others were doing. Better-resourced councils made use of external consultants or local universities where knowledge was shared (normative isomorphism).

Practical implications

An understanding of factors influencing the development and use of performance measures, in turn, can be used not only to improve PMSs in the future but to improve the quantity and quality of LAKIP reporting.

Originality / Value

The theoretical development and interpretation of this research is drawn from institutional theory with a major contribution being that it provides an in-depth conceptual overview and understanding of factors influencing the development and use of performance measures. Further, it fills a gap in the literature exploring PMSs and accountability in a developing country – in this case, Indonesia.

Keywords: performance measurement systems; performance management; local government; institutional theory; isomorphism; qualitative interviews

Article Classification: Research paper

Implementing Performance Measurement Systems: Indonesian Local Government under Pressure

Introduction and Background

Over the last 40 years the idea of performance measurement has been the focus of considerable attention from both academics and practitioners (Kihn, 2010; Neely, 1999). Initially, the research in the field mainly concentrated on performance measurement in the private sector (Chenhall and Smith, 2007; Johnson and Kaplan, 1987; Kaplan, 1983). However, since then there have been a number of studies addressing the issues of performance measurement in the public sector (Cavalluzzo and Ittner, 2004; Hood *et al.*, 1998; Micheli and Neely, 2010; Silva and Ferreira, 2010). In Indonesia, the interest in performance measurement began to emerge at the beginning of the reform era in 1999 when President B.J. Habibie signed a presidential instruction (Inpres No. 7/1999), the Performance Accountability Report of State Apparatus (known as LAKIP). Initially established as an annual report, LAKIP has developed into a performance measurement system by requiring agencies to describe their mission, vision, strategic objectives and key performance indicators (KPIs), and providing mechanisms to link KPIs with the agency's objectives and budget (Rhodes, *et al.*, 2012).

The reform aimed for greater transparency in government transactions and clearer accountability for results to the public. By objectively measuring the performance of government action, accountability provides a certain degree of assurance to citizens that any individual given the mandate to act on their behalf is doing their best to carry out the tasks (Hughes, 2003). LAKIP is intended to assist local governments achieve accountability. With the end of the New Order regime in 1998, a new era began with democratic administration being based not on the dictates of an all-powerful president, but upon the rule of law and the disciplines of democratic accountability (Alm and Bahl, 2000). Two crucial laws – UU

No.22/1999 (superseded by UU No.32/2004) and UU No.25/199 (superseded by UU No. 33/2004) – resulted in the beginning of the transformation of Indonesian society. Although Indonesia's decentralisation occurred relatively rapidly, there are still myriad issues - such as poor governance and inefficient administration - that are considered to be responsible for a poorly structured performance measurement framework (Rhodes *et al.*, 2012).

According to Lapsley and Pallot (2000, p. 215), "the reform of local government management can be seen as part of a wider set of public sector reforms, which are characterized under the umbrella heading of New Public Management (NPM)". Cheung (2011, p. 131) claimed NPM and good governance models were the two "dominant paradigms" having the "greatest impact on Asian (in which he includes Indonesia) institutional reforms". Hence, the development of NPM was seen as a means by which to enhance accountability and transparency of governments and this, in turn, required performance information and systems that were more comparable, relevant and useful for decision-making within the public sector. For Indonesian local government this meant LAKIP.

Based on interviews of Indonesian local governments, this research explores the drivers behind the implementation of performance measurement systems (PMSs). It provides personal insights from government officials charged with implementing LAKIP and the development and use of performance indicators and accountability practices. The theoretical development and interpretation of this research is drawn from institutional theory with a major contribution being that it provides an in-depth conceptual overview and understanding of factors influencing the development and use of performance measures. Several issues are identified in the theoretical framework section, such as sources of coercive pressures in a developing country; use of mimetic isomorphism in regards to implementing a PMS; and the

effect multiple stakeholders have on PMSs and accounting practices. The understanding of these issues, in turn, can be used not only to improve PMSs in the future but to improve the quantity and quality of LAKIP reporting. With much of the performance measurement and management literature focusing on empirical studies in developed countries, very little exists examining PMS implementation in developing countries (Mimba, Van Helden and Tillema, 2007; 2013). Hence, the objective of this research is to reduce this gap in the literature by analytically assessing Indonesia's attempt to introduce a PMS. To do this, the research will address three questions:

RQ1) Do organisations in developing countries actually use PMSs to aid decision-making and help plan for future performance improvement?^[1]

RQ2) Do the three isomorphic pressures exist in the development and use of PMSs? and

RQ3) If institutional isomorphism is evident, can accountability exist within the development and use of PMSs given these pressures.

This paper begins with a brief literature review followed by an explanation of the theoretical framework employed. Then, the research method is explained and results of the interviews presented and discussed in the penultimate section. A conclusion and suggestions for future research ends this paper.

Literature Review

New Public Management and Accountability

The UK government under Thatcher was, according to Bovaird and Downe (2006), one of the first to launch NPM-type reforms. Unlike many reform movements, NPM was seen as driven by the practitioners rather than being an academic exercise (Boston, 2011). The implementation of NPM has been adjusted to suit different government requirements with many government entities in developed countries having now introduced elements of NPM (ter Bogt, 2004). NPM is based on the concept that public sector organisations can, and even

should, borrow many of the management strategies from the private sector (Hood, 1995). With management in both sectors fundamentally similar, this was considered to be doable (eg Peters, 2003). Nevertheless, there were other differences, one being the role of political leaders in the public sector. Prior to NPM and administrative reforms, politics had a major impact on all decision-making whereas it was thought that reform would reduce this political constraint and hence shift the accountability impetus (Peters, 2003; Polidano, 2001). Once this shift occurred, systems could be put in place to assist both management and the organisation to perform more efficiently and effectively. Unfortunately, it's difficult for managers to disassociate themselves from the political to the extent that it could be argued the reform process is not suited to countries that do not already have a democracy (Peters, 2003). To ensure successful implementation of any administrative reform, political leaders need to be fully committed to ensuring other levels of management make reform a priority (Polidano, 2001). Polidano (2001, p. 14) summed it up quite well when he said "Put bluntly, officials are more likely to pick up the baton of reform and run with it if the head of government is breathing down their necks ...". As a developing country that in 1998 began the process of becoming a democracy (Rhodes *et al.*, 2012), Indonesia offers a perfect setting to analyse the development of accountability practices as part of the reform process.

Nutt (2005) described some of the differences between the public and private sector and again a major difference was attributed to politics. Similar to Peters (2003) and Polidano (2001), he referred to constraints on performance as agency heads reported to people in oversight roles – usually political appointees such as relevant Ministers of state. NPM, however, was seen to offer a way of improving administrative efficiency and performance as it moved the public sector closer to the private and away from centralisation and toward structural disaggregation (MacCarthaigh, 2011).

Hence, the movement towards NPM in the latter part of the twentieth century broadened the dissemination of the concept of accountability. During the last three decades notions of public sector accountability have become widely used with formal systems of accountability being built into rules and legislation for government entities (Fowles, 1993; Hyndman and Anderson, 1995). With this performance management became such that transparent measures made it difficult for managers to "hide behind their ministers" (Aucoin, 2011, p. 43). According to Sciulli (2011, p. 142), "historically, the focus of attention with respect to accountability in the public sector has been on probity and process". In other words, the community expect public officials to be honest and to abide by guidelines that are usually referred by an organisation higher in the centralized pyramid. During the reform era in Indonesia, the increasing lack of trust in government organisations at every level and the continued concern about the way public money was spent led to an emphasis on the issues of government accountability. With the onset of reform, government entities had a responsibility to report to central government and also to the local community. Accountability in local government is provided by the use and publication of both financial and non-financial performance indicators. These indicators are expected to play a significant role in managerial or internal control in ensuring that organisations are managed in the best interests of all stakeholders. However, as contended by Pilcher *et al.* (2013), public sector accountability is not simply a one-to-one (principal-agent) relationship. Instead the relationship consists of a number of different stakeholders whose economic and political interests overlap. In addition, many believe that performance measurement is important to demonstrate both external and internal accountability (Kloot, 1999; McPhee, 2005; Tilbury, 2006). Cameron (2004) argued that the reporting of performance information is fundamental to government organisation accountability. This performance-based accountability process requires a PMS that is capable of producing information about an organisation's outputs and results as measured against its

pre-determined goals and objectives. Linked to each of these goals is a manager who is accountable for its achievement (Aucoin, 2011). As LAKIP has at its core accountability and performance (Rhodes *et al.*, 2012), it is important to understand how performance is measured.

Performance Measurement (Systems)

Over the past two decades a considerable amount of research has been conducted on the design and implementation of PMSs in both the public and private sectors (Broadbent and Guthrie, 2008; Modell, 2009; Taticchi, Tonelli and Cagnazzo, 2010). In general, this research has mainly been descriptive with studies focusing on different types of systems and implementation issues (see, for example, Cavalluzzo and Ittner, 2004). More recently, greater emphasis has been placed on empirical research that focuses on the implementation and effectiveness of PMSs used in public sector organisations (Akbar, Pilcher and Perrin, 2012; Baird, Schoch and Chen, 2012; Goh, 2012; Rhodes *et al.*, 2012).

Designing and implementing an effective PMS system is a difficult and complex task that needs to be dynamic and consider the needs and expectations of all stakeholders. Over the past two to three decades multiple systems (or frameworks) have been developed, designed to improve accountability by linking strategy and performance to various perceived stakeholder needs (Harrison, Rouse and de Villiers, 2012). These frameworks are important in local government which, as the tier of government closest to the people, is in the front line of service delivery and hence needs to be seen to be performing at a high standard. From this, one could ascertain that local government should manage and measure its performance using a PMS in order to better serve the citizens and, in turn, gain their support. However, citizens are just one group of stakeholders and, as many authors have found, public sector organisations often have a myriad of conflicting stakeholders who need to be satisfied that

these organisations are performing efficiently, effectively and with economy (see, for example, Cheng, 1994; Harrison, Rouse and de Villiers, 2012; Ramanathan, 1985).

Prior research shows that PMSs are not always successfully implemented or used to improve decision-making or accountability (Brusca and Montesinos, 2013; ter Bogt, 2008). A poorly designed PMS may not only be of no benefit to the organisation but could potentially result in dysfunctional behaviours (Fryer, Antony and Ogden, 2009; Neely, Bourne and Kennerley, 2003). For example, Mimba, Van Helden and Tillema (2013), claimed that the design and use of PMSs in less developed countries is problematic due to the lack of resources, low institutional capacity, and the high incidence of corruption. In many cases agencies focused on fulfilling the symbolic formal reporting requirements, rather than the functional use of performance information (Mimba, Van Helden and Tillema, 2013). In a similar study, Koike (2013) found that the impact of PMS reforms implemented in several Asian countries have not achieved the goals of improving accountability; increasing efficiency; or reducing corruption in the public sector.

Despite the extensive research done on the design and implementation of PMSs, most of the papers published to date have focused on the private and public sectors in developed countries (Mimba, Van Helden and Tillema, 2007). Very little research has examined the impact of public sector reform in developing countries or focused on the factors or barriers that organisations' face when designing and implementing an effective PMS (Goh, 2012; Mimba, Van Helden and Tillema, 2013; Sanger, 2008). According to Lye (2006, p. 25), researchers have "failed to examine closely the interdependencies between contextual factors and the use of performance measures". The objective of this research is to address this gap in the literature by examining Indonesia's attempt to introduce a PMS system. Given the PMS in Indonesia was implemented in a time of change (as a result of the reforms), factors

influencing this change can be analysed by using institutional theory (Ashworth, Boyne and Delbridge, 2009; Pilcher, 2011). Institutional theory argues that the main reason underlying organisational change is gaining legitimacy rather than improving substantive performance (Ashworth, Boyne and Delbridge, 2009). By using institutional theory power relationships in society can be analysed (Pilcher, 2011). Brignall and Modell (2000), for example, used institutional theory to analyse, in general, how the pressures from different stakeholders impacted on the use of PMSs in the public sector. In a country that is struggling to decentralize as part of the reform process (Alm and Bahl, 2000; Darmawan, 2008), specific cultural values and institutional characteristics are also expected to have some influence on the adoption of a PMS such as LAKIP. How institutional theory will be used to analyse the relevant factors is now considered.

Theoretical Framework

Hyndman and Connolly (2011) ascertain that by adopting certain practices (such as a PMS), an organisation may be able to appear legitimate even though it is actually not being any more efficient or effective than prior to adoption. This paper uses institutional theory, specifically the concept of institutional isomorphism, to explore and explain why organisations respond to external forces in the way that they do. Meyer and Rowan (1977), along with others such as Zucker (1977) and DiMaggio and Powell (1983) lead what is referred to as "new institutionalism" as compared to the "old". Ma and Tayles (2009) explain, in some detail, how they perceive the difference between old and new institutionalism – definitions that link very closely to this research. For example, Ma and Tayles (2009) confirm that the new institutionalism is built on a given field or organization (as articulated by DiMaggio and Powell, 1983). In regards to management accounting practices and PMSs, this means that multiple external forces – economic, technical, cultural, political – are at play with the latter two incorporating processes that concern legitimacy and power (Ma and Tayles,

2009). Old institutionalism, however, Ma and Tayles (2009) contend is more concerned with the individual organization and analyzing change at the micro-level (supporting Burns and Scapens, 2000 and Modell, 2001). For example, Burns and Scapens (2000) examine change as a result of the introduction of new senior management. Given these definitions, this paper sits nicely within the "new" institutionalism as defined originally by DiMaggio and Powell (1983) and then by Ma and Tayles (2009).

The history of institutional theory shows that it has developed many strands since its early application. The old institutionalism as outlined by, for example, Selznick (1949; 1996) contrasts significantly when compared to many of the newer strands or streams. As mentioned above, one major difference between the two is the view of the "institution". Given this study is concerned with new institutionalism, using Jepperson's (1991, p. 145) reasoning, an institution can be defined as "a social order or pattern that has attained a certain state or property" and "institutionalisation denotes the process of such attainment". Jepperson (1991) considered the definition of institution as essential given the various examples used in society (for example, marriage or the army). According to Scapens and Varoutsas (2010, p. 7) the focus of much of the research in new institutionalism is on "how institutions shape the patterning of organisations and lead to homogeneity in organisational fields". This homogeneity supports researchers like DiMaggio and Powell (1991) espousing isomorphism and then the doctrine of "power, subordination and responsibility" (Selznick, 1996, p. 272). More recently, academics have considered institutional theory in varying forms: Modell (2004, 2005) and Tsamenyi, Cullen and Gonzalez (2006) – utilise the new institutional sociology to explain organisational change; Brignall and Modell (2000) – consider that institutional theory could explore organisational change with the addition of the interests and power from various stakeholders; Thornton and Ocasio (2008) – contend that institutional logics provide a bridge between some of the earlier institutional theories; Lounsbury (2008) –

offers alternatives to isomorphism; Cruz, Major and Scapens (2009) extend the capacity of neoinstitutional analysis by demonstrating that local practices may need to be varied in order to implement management control systems by various international organisations; Ashworth, Boyne and Delbridge (2009) – show the benefits of using isomorphism as an explanator of change; Collin *et al.* (2009) – suggest integrating positive accounting theory with institutional theory; and, finally, Sharma, Lawrence and Lowe (2010) - use insights from institutional theory, including isomorphism, to confirm institutional theory as a theory of stability but then found it could also explain organisational change.

Debate around nuances associated with variations on the "old" and then "new" institutional theory continue today (for example, Falkman and Tagesson, 2008; Lounsbury, 2008; Ashworth, Boyne and Delbridge, 2009). Unfortunately all theories have their issues and institutional theory is no exception. For example, Seo and Creed (2002, p. 226) proposed four sources of "institutional contradictions" which could appear in institutions over time when considering organisational change. Burns and Scapens (2000), on the other hand, consider institutional theory as a framework for analysing the process by which management accounting change occurs. Hence, it is possible that one of the other nuances would have fitted with the research objective here (such as that proposed by Schneiberg and Soule (2005) where political and cultural aspects of the diffusion process were considered). Nevertheless, the more traditional form of institutional theory was used to inform the instrument and its subsequent analysis. As a developing country, in many ways Indonesia is still in its infancy in regards to the development of PMSs – particularly during the first wave of reforms. As Scapens (2006, p. 13) explained, institutional theory has its role and has been used, successfully, by management accounting researchers to study the "non-rational and sometimes ceremonial use of accounting information". Other institutional theory proponents, such as Meyer and Rowan (1977), suggested that conformance to the ceremonial assessment

criteria is as a result of isomorphism. Here isomorphism will be considered in regards to the adoption (and assessment by Central Government) of LAKIP as will be explained in the discussion section below.

Institutional Isomorphism

Over the years, the implementation of management control systems where performance measurement is an integral component, have been studied from functionalist, behavioural, interpretive and critical perspectives. In management accounting, budgeting (loosely falling within the auspices of the control literature) research has been dominated by agency theory (eg Williams, Macintosh and Moore, 1990). However, more recently, studies examining management accounting topics from an institutional perspective have come to the fore (Burns and Scapens, 2000; Ezzamel *et al.*, 2007; Kilfoyle and Richardson, 2011). Recent studies have seen the emergence of institutional theories where organisations compete not only for resources and customers but also for political power and institutional legitimacy (for example, Chenhall, 2003). Some strands of institutional theory consider that organisations pursue legitimacy by conforming to isomorphic pressures in their environment (Ashworth, Boyne and Delbridge, 2009; Kilfoyle and Richardson, 2011). This study falls under what Kilfoyle and Richardson (2011, p. 189) refer to as "classic institutional theory" which they describe as examining "how organisations gain legitimacy and survive by conforming to expectations that have been institutionalised".

Many institutional theorists, such as Covalleski and Dirsmith, (1988), DiMaggio, (1988), Lapsley and Pallot (2000), Perrow, (1985), Pilcher (2011) and Powell, (1985), have based their studies on isomorphism. DiMaggio and Powell (1991, p. 64), following Weber's (1952) ideas on homogenisation of organisational structures labelled the process by which organisations tend to adopt the same structures and practices as "isomorphism", which they

described as "...a homogenisation of organisations" (DiMaggio and Powell, 1991, p. 64). According to Hawley (1968, in DiMaggio and Powell, 1983, p. 149), isomorphism is a "constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions". In other words, organisations that produce similar services or products all begin to bear a resemblance to each other in particular aspects – such as local government. Lapsley and Pallot (2000) provided evidence of institutional isomorphism occurring in Scottish local authorities with Bovaird and Downe (2006) mapping the evidence of a trend to institutional isomorphism in English local government in issues of procurement.

DiMaggio and Powell (1983 and 1991) suggested that governments, which often have ambiguous goals and unreliable performance measures, resort to legitimacy rituals to demonstrate social and economic fitness. Pina, Torres and Yetano (2009, p. 795) cite several references (such as De Lancer Julnes and Holzer, 2001) that found management reforms were introduced purely for their "symbolic value" and, although implemented, were not used accordingly. DiMaggio and Powell (1991) claimed that institutional isomorphism could help understand and explain the influence of politics and other external pressures faced by organisations. Hyndman and Connolly (2011) found that pressures exerted on UK organisations when it came to adopting accrual accounting were suggestive of isomorphism. Modell (2012) contended that use of institutional theory is becoming more prevalent in strategic management accounting research. Although he doesn't use the term 'isomorphism', Modell (2012) refers to institutional pressures – such as by dominant stakeholders – and regulatory pressures in the same vein as DiMaggio and Powell (1983) refer to coercive pressure. Coercive is just one stream of isomorphism with two other mechanisms – mimetic and normative – also associated with institutional isomorphism (as reviewed by Aldrich, 1979; Di Maggio and Powell, 1983 and 1991; Kanter, 1972).

Since the early writings on institutional isomorphism, many authors have utilised this theoretical framework in their research. For example, Mir and Rahaman (2005) studied the adoption of international accounting standards in Bangladesh; Barreto and Baden-Fuller (2006) offered new insight into mimetic isomorphism and its reliance on legitimacy; Trevino, Thomas and Cullena (2008) examined institutional reform in sixteen Latin American countries between 1970 and 2000; with Sharma and Lawrence (2008, p. 26) using institutional theory as the "main interpretive lens" in their study set in a developing country. As detailed earlier, Ma and Tayles (2009) use the institutional isomorphism framework of DiMaggio and Powell (1983) in the same way this paper utilises the concepts when applied to management accounting change in the form of performance measurement systems. In other words, three isomorphic pressures – coercive, mimetic and normative – are explored as the basis of this paper.

Coercive Isomorphism

Coercive isomorphism stems from political influence and the problem of legitimacy, and comes from both formal and informal pressures from other organisations. In a decentralised environment, central government normally has greater coercive power over local government (Brignall and Modell, 2000; Modell, 2001). This power imbalance was criticised by Gilbert, Rasche and Waddock (2011) as a barrier to successful implementation of policies. Despite the decentralisation in Indonesia, by law central government has the continuing privilege to maintain control over local government units through the enactment of a new law or regulation. In institutional theory, coercive isomorphism may take place when organisations are forced to adopt similar methods (such as a PMS) in order to comply with rules and regulations. Pina, Torres and Yetano (2009, p. 795) contended European local governments were forced to adopt accrual accounting but became "passive adopters" and often established

two sets of financial statements – one for regulatory purposes and one for decision-making. Pilcher (2011) determined that in Australian local government, isomorphic pressures came from state government which had much the same effect as experienced in Pina, Torres and Yetano (2009). However, there is very little, if any, literature exploring institutional isomorphism and its effect on the adoption of PMSs in Indonesia and very little in any other developing country. In a previous empirical study exploring the factors (metric difficulties, technological knowledge, management commitment and legislative requirements) influencing the development and use of PMSs in ILG, the authors determined there was potential for coercive isomorphism to exist (Akbar, Pilcher and Perrin, 2012). However, further exploration was essential as the outcomes of the empirical data were purely a by-product of the statistical analysis providing an exciting opportunity to explore isomorphism further and to determine the behavioural aspects associated with adoption and use of PMSs.

In Indonesia, the sources of isomorphic pressures potentially come from central government via legislation that affects government organisations including local government. ILGs are required to submit performance reports to central government. This paper examines whether compliance translates into the use of performance information in local governments' day-to-day management practices. For example, in a study on performance measurement for accountability purposes, Cavalluzzo and Ittner (2004) found that implementation of externally mandated PMSs in United States government organisations was used merely to fulfil regulatory requirements, and tended to be symbolic in nature, without substantive impact on internal operations. Jamali (2010) found confirmation of actual conformance to sanctioning pressures but only symbolic conformance to other types of pressure. Mizruchi and Fein (1999) and Carpenter and Feroz (2001) also examined the role organisations, that provide resources to other organisations play, claiming it is clear that pressure from funding agencies is coercive.

Mimetic Isomorphism

Mimetic isomorphism emerges as a result of an effort to respond to environmental uncertainty in the field. Where organisations operate in this type of environment, they tend to mimic others in order to achieve legitimacy (DiMaggio and Powell, 1983; Ma and Tayles, 2009; March and Olsen, 1976). With local government consisting of a large number of similar organisations (in terms of function, duties, legal imperatives, financing and activities), there is potential for organisations not only to reflect their external environment but to seek institutional isomorphism by mimetic processes (Di Maggio and Powell, 1991). In this way local authorities would seek legitimation by resembling other local authorities in terms of their organisation, procedures and response to external initiatives (Lapsley and Pallot, 2000) – such as LAKIP. There is little, if any, research on the role mimetic isomorphism has in influencing the way local governments in developing countries (and, in particular, Indonesia) adopt and/or use a PMS. This paper helps overcome this deficit.

Normative Isomorphism

Normative isomorphism is usually associated with professionalism to provide a better insight, and hence a better explanation, to the findings of the research. Normative isomorphism takes place when norms are internalised within organisations along with outside coercive social pressure (Mizruchi and Fein, 1999). Organisations are sometimes pressured to follow best practices or normative guidelines (Dacin, 1997). According to Ryan and Purcell (2004, p. 10) "normative influences refer to shared norms of organisational members, that is, those values that may be unspoken, or expectations that have gained acceptance within organisations".

Given the low level of human resources capacity in many governments in both developed and developing countries (Pilcher and Dean, 2009), there has been a trend in the last decade to give more attention to the education of government employees and officials (Mera, 2000). As

this demand emerged, many educational institutions began offering programs (degree and non-degree) that were specially designed to respond to government employee and official needs. DiMaggio and Powell (1991) argued that the more educated the workforce becomes, in terms of academic qualification and participation in professional and trade associations, the greater the extent to which the organisation becomes similar to other organisations in the field. A PMS, for example, may be adopted in order to gain perceived legitimacy (through normative pressure) rather than to achieve better performance (DiMaggio and Powell, 1983; Glynn and Abzug, 2002; Meyer and Rowan, 1977).

Despite there obviously being multiple stakeholders that interact with local government, most literature on government performance measurement assumes that there is a relatively simple principal-agent relationship, and makes little room for the "multiple principals" issue. Consequently, studies of performance in the public sector within an institutional context are limited (Talbot, 2008). As detailed above, this paper attempts to fill the many recognised gaps by examining within an institutional theory context the interaction between stakeholders involved in the practices of PMSs and accountability in ILG.

Research Method

Based on prior literature above (in particular that on institutional theory) and results of an earlier survey conducted by the authors, several issues were identified which, in turn, informed the main research questions.^[2] As outlined at the beginning of the paper, these are:

RQ1) Do organisations in developing countries actually use PMSs to aid decision-making and help plan for future performance improvement?

RQ2) Do the three isomorphic pressures exist in the development and use of PMSs? and

RQ3) If institutional isomorphism is evident, can accountability exist within the development and use of PMSs given these pressures.

To assist in answering these research questions, both closed and open-ended interview questions were developed. The questions were structured under four headings – accountability, performance measurement, institutional isomorphism and others (a copy of the interview guide can be found in Appendix 1). Given the questions were centred around how local governments use PMSs, other media, apart from being not available, were also not required.^[3] In-depth interviews were conducted in 2010 with 24 ILGs targeted using purposive sampling (see, for example, Babbie, 1990). Purposive, or purposeful, sampling is defined by Babbie (1990, p. 97) as selecting a sample "on the basis of your own knowledge of the population, its elements, and the nature of your research aims". In other words, the population is "non-randomly selected based on a particular characteristic" (Frey, Botan and Kreps, 2000, p. 132). The selection of the interviewees was based on several aspects, including: type, location, size, managerial position and gender. This variety of interviewee profiles can be clearly seen in Table 1 below. The selection process allowed for both types of ILG (regional and municipal) and both localities (Java and non-Java) to be represented. A cross-section of participants ensured a range of responses from low-level officials to high-level managers in functions including administrative, finance, planning and audit, were obtained. In other words, responses were not restricted to one level of management nor one particular function.

[Insert Table 1 about here]

Following contact by phone to make appointments, the interviews were conducted in the Indonesian premises of the interviewees. On average the interviews (recorded with permission of the interviewees) lasted for 60 minutes. Qualitative data collected during the interviews was in the form of audio files saved in a digital voice recording device. The audio data was subsequently transcribed by the researcher to convert the data into text data, which

enabled the application of text analysis. As the original interviews were conducted in Indonesian, these were converted to English and checked by a qualified translator.

The qualitative data were analysed using thematic analysis which can be defined as "a method for identifying, analysing and reporting patterns (themes) within data" (Braun and Clarke, 2006, p. 79). It is a systematic way of identifying all the main concepts arising in the interviews and then categorising these into common themes. Given the relatively small number of interviews, the data were processed manually.

Results and Discussion

In order to answer the main research question, this section is divided into two sections corresponding to the two sub-questions referred to above.

Institutional Isomorphism

Initially, using the three isomorphic pressures as the "themes", Table 2 summarises the interview results regarding the process of performance report preparation.

[Insert Table 2 here]

The majority of interviewees (62.5%) indicated that the main references in the development and use of performance indicators were regulations and guidelines issued by central government. As will be explained below, given the perceived importance of compliance – especially in the format required by central government – it was perhaps surprising that this was not 100%. However, a small percentage – 25% and 12.5% respectively – sought to obtain information elsewhere using reports from other local governments and some, more general, reports. In the process of PMS implementation, assistance was received from BPKP – 50%; local universities – 21.5%; independent consultants – 8%; and other government institutions (MeNPAN – 8%; others – 12.5%). Hence, whether it be perceived pressure

exerted by central government (that is, coercive pressure), copying of other ILG reports (mimetic isomorphism), or getting assistance from outsiders (via normative mechanisms), all three institutional themes were apparent.

Coercive Isomorphism

One major driver behind the adoption of a new system, including a PMS, is pressure from regulation (Katharina, Matook and Rohde, 2009). This also applies to the adoption of PMSs in Indonesia. Since the emergence of Inpres No.7/1999 just a year after the fall of the authoritarian regime under President Soeharto, government entities at all levels, including local governments, turned their attention to performance reporting. Despite the potential benefits PMSs offer to ILG in the midst of their effort to enhance accountability, the majority of ILGs were found not to be ready to implement the system. Many ILGs claimed that they had little time and they also were still struggling with their low technical capability, especially with their relatively low quality of human resources. As the submission of performance reports is compulsory, ILGs were forced to adopt the PMS despite the fact that they were not ready to do so. In preparation they needed to install new systems capable of producing the required reports. Comments supporting these claims included:

Since the emergence of regulations regarding performance reporting, we are forced [by Central government] to prepare and submit a performance report (K22, Planning).

To be honest with you, for the time being, we developed performance indicators simply to fulfil regulation requirements. Besides, so far there has not been a performance audit carried out. Auditors are only concerned about ILG's financial performance (K7, Finance).

We developed performance indicators as it was part of our obligation to follow instructions from Central government [as regulation requirement]. Even though we actually need performance information as well to make sure we achieved results, in this matter regulation requirements were central (K15, Planning).

Interviewees viewed coercive pressure imposed by regulations as the major driver behind the development of performance indicators. The actual use of performance information to assist with decision-making was only secondary.

Linked to the results surrounding legislation was an interesting finding regarding the relationship between legislative requirements (coercive pressure) and use of indicators (accountability). The higher the official, the more political the perceived use of indicators as can be seen from this response:

As [a] government official at managerial level I need to always consult and conform to any regulations, including [the one related to] LAKIP. That was a standard procedure explicitly stated on my job description. [In short], regulations significantly affect my decisions in using performance indicators. On the other hand, Bupati [Head of District] normally bases his decisions on political considerations. He prefers to include information that benefits him politically. I guess that is normal as he is an elected official. (K22, Planning)

For the top level officials, political factors were more important to consider than other organisational or institutional factors.

Although ILGs are allegedly autonomous, they are, to some extent, still financially dependent on the central government. The shared fund ILGs receive is determined by central government via a national budget allocation process. Results of the interviews indicated that many ILGs believed the funds transfer was dependent on LAKIP report submission - supporting DiMaggio and Powell's (1991) claim that coercive isomorphism is more likely to occur when there is financial dependence. Regardless, the fact the regulations are compulsory has forced government organisations, including ILGs, to comply with them despite their unpreparedness to implement the systems. This pressure was expressed by one interviewee as follows:

Due to strong external pressures often central government issues new regulations in a rush and then forces lower tiers of government, such as local governments, to comply. Regulation on performance reporting was a good example of that. (K17, Secretary)

ILGs have no other choice but comply with the regulation if they do not want to face potentially adverse consequences in their budget. One way to assist with the pressure to comply with regulatory requirements is to "copy" from others around them (Ashworth, Boyne and Delbridge, 2009; Barreto and Baden-Fuller, 2006; DiMaggio and Powell, 1983).

Mimetic Isomorphism

With the reforms came various legislative regulations released by central government and having an impact on ILGs. According to Haveman (1993), when a situation of uncertainty and insufficient information arises, mimicking the behaviour of others can help in the pursuit of perceived legitimacy. Moreover, when successful adaptation of a policy is not well understood and it is difficult to evaluate a program output directly, an easy option is to copy what others have done well. From the interviews, many ILG officials, especially the ones located out-of- Java or those from ILGs with fewer resources, admitted they had copied the performance reports of others. Comments from interviewees supporting this claim include:

We first tried our best then referred to other councils [ILG] in regard to the format of the report. (K6, Finance)

When preparing performance report we were getting examples and copying the practices of other councils. (K19, Finance)

Barreto and Baden-Fuller (2006, p. 1560) also questioned "who imitates whom". In other words, how do councils make the decision about who to copy? ILGs conceded they were more likely to select a better performing council to mimic. This was supported by several interviewees, one of whom said:

With regard to the performance report, my local government copied the report from a provincial government and shared this information with other local governments. (K18, Finance)

It is apparent from responses presented above that many of the ILGs saw copying best practice from other government organisations as the safe and easy way to comply with the regulations. There was a tendency for smaller ILGs to use larger ILGs as the benchmark in producing performance reports. In addition, there was also evidence that out-of-Java ILGs copied the practices of in-Java ILGs. For example:

Yes, we first refer to the nearest local government [ILG] and as we were unhappy with that we then turn to the better example from an in-Java local government.
(K5, Finance)

With regard to management practices, such as producing and using LAKIP, ILGs are not all at the same stage. Most ILGs are still in the very basic stages of implementation, although some better-resourced councils have achieved a more advanced stage. For under-resourced and/or smaller councils, mimicking larger organisations is an option. This is consistent with those previously reported by Ryan and Purcell (2004) and Collin *et al.* (2009). However, there is still a long way to go. In 2012, of the 497 ILGs, 210 had submitted a LAKIP for the 2012 financial year – many of those as a result of copying other ILGs or, as will be shown shortly, with assistance from professionals around them (Kompas, 2012). Councils can learn from each other to improve their management capabilities through any kind of media facilitated by the central government.

Normative Isomorphism

The majority of respondents confirmed that the PMS they adopted was designed by an external consultant (mainly BPKP as indicated in Table 2 above)^[4], with active participation of a team established internally and comprised of relevant ILG employees. This team, representing the recipients of the systems, acquired the knowledge through interaction with the external consultant. Some respondents also mentioned the role the university played in shaping their knowledge on many topics in public management, including PMSs. Others, as

can be seen from this following comment, combined mimicking with normative isomorphism:

When it comes to preparing the performance report, initially we refer to other leading councils [ILGs] as we are a relatively less advanced organisation and need to learn from other more advanced ones. (K4, Finance)

However, the main facilitators of knowledge acquisition were seen to be BPKP and local universities. How this occurs is now reviewed with input from the interviewees.

The Role of BPKP (external auditors):

Given the low quality of employees and officials in the majority of ILGs, the role of professionals from outside the organisation, such as BPKP, was crucial to reduce errors and increase the chance of success in adopting and implementing institutionalised practices (Joon and Jasook, 2010).

Initially we asked for help from BPKP to prepare performance report. (K15, Finance supported by similar comments from K22, Planning)

At the early stage, BPKP provided technical assistance to us. They provide us with in-house consultation in preparing performance report. (K21, Secretary)

We directly asked for technical assistance on the adoption and implementation of [the] PMS from BPKP. In the process, there were transfers of knowledge from them to us. Over time as we gain some of the knowledge, the role of BPKP was gradually reduced. (K23, Internal Auditor)

From these comments, BPKP had a role in assisting ILGs in implementing PMSs, especially in the early stages, as local officials and employees needed to learn the new systems.

Local governments in Indonesia have very limited autonomy in hiring and firing local government employees. Instead, higher government employees are simply transferred to local levels and often have no knowledge of what is expected of them. According to Mollet (2007), the movement of employees is often a political one with corruption being an underlying

reason. However, another source of employees is graduates from the universities (Mollet, 2007).

The Role of University:

Interview results supported literature above revealing that local universities provide a major contribution in helping ILGs with their management problems, including those related to PMSs.

We were so lucky to have high quality well-reputed universities in our neighbourhood so we had a good opportunity to benefit from them [to access their high-quality education programs and expertise]. Universities assisted us in the early-stage of LAKIP implementation. For a long-term purpose, we send our employees to either short-term non-degree programs [i.e. training/seminar/workshop in performance measurement/management] or to degree programs [i.e. master degree in public management]. We did that in the past and will continue to do so as we believe in quality education to build our capacity. (K17, Secretary)

This comment, from a city council with above average revenue and located in-Java, is quite different from what would have been expected several years ago or what is still occurring in out-of-Java or low-resourced councils. In the past local government has offered the lowest level of salary and hence only attracted third-layer graduates or those without any qualifications who require training.

Given the many facets embedded in the concept of accountability, appropriate and relevant reported performance indicators are central in discharging accountability to the public. Therefore, to develop and use performance indicators that will effectively achieve accountability goals, ILGs need to have employees and officials that have the required technical capability in dealing with PMSs. Quality workers are needed for good staffing in any organisation including ILG (Kotter, 1996).

There has been a nation-wide trend in the last decade for many organisations to send their employees for further education to universities to increase their technical capabilities. ILGs across Indonesia were no exception and many universities, especially the large ones, promptly responded to the emerging needs by offering new degree/non-degree programs such as public sector accounting and public management/administration. For example:

When it comes to increasing the quality of human resources, we educated our employees by utilising the expertise available from the local university (K17, Secretary).

While attending educational programs in universities, ILG employees have the opportunity to share their experiences of PMS implementation with their colleagues from other ILGs across the nation. Potentially they could also disseminate this new knowledge and experience with their colleagues. Thousands of ILG employees and officials attended and graduated from such programs. As a result, they brought about changes in their ILGs and made the practice of performance reporting more homogeneous than before. This finding supported the Central Government's push for ILGs to increase their skills (Mollet, 2007). It is also in line with the improvement of guidelines over the decades since LAKIP was first released in 1999 (as described earlier in the paper). DiMaggio and Powell (1983) argued that the more educated the workforce became, in terms of academic qualifications and participation in professional and trade associations, the greater the extent to which organisations would become similar to other organisations in the field. Peters (2003, p. 11) raised the idea of "control over employees" whereby control can be through financial incentives and building organisational cultures – both of which fit neatly into normative isomorphism. For example, higher qualifications lead to potentially higher salaries and through alumnus and professional groups, organisational cultures form. The quality of performance reports was expected to improve in the future as many officials who undertook further degrees at universities returned to their

ILGs (see, for example, Blundell *et al.*, 1999). It is clear from the interviews that ILGs have benefited from outside expertise such as from BPKP or universities in dealing with PMSs.

Accountability

The third research question is: "If institutional isomorphism is evident, how does accountability fit within ILGs development and use of PMSs given these pressures." It is obvious from the previous section that institutional isomorphism is evident and hence it is appropriate to consider accountability and its role in the development and use of PMSs by ILGs. One of the most important goals all government, including ILG, wanted to achieve in the era of reform was to increase accountability to their stakeholders. Different actors in the government context interrelate in a complex web of interactions. In Indonesia, the various groups of organisations that interact with the ILG in terms of PMSs and accountability practices are: 1) Central Ministry (eg Ministry of Home Affairs (MoHA)); 2) Provincial government offices (eg Governor's Office); 3) Legislatures (eg Local Parliament); 4) Audit agencies (eg Badan Pemeriksa Keuangan dan Pembangunan (BPKP)/ Government Auditor). A PMS was an important tool to enable ILG to prepare performance reports as a medium to discharge their accountability obligation to these stakeholders. Success or failure in implementing the PMS was considered a crucial part in achieving accountability goals.

The central government (MeNPAN) conducts an evaluation of LAKIP reports annually. LAKIP "aims to increase government institution's efficiency, effectiveness, transparency and accountability for goal achievement" (Mimba, 2012, p. 53). In other words, targets are set, measured and evaluated with reasons for not achieving expectations also included in the report. Under the 1999 Instruction (LAN#589/IX/6/4/1999), governments were able to decide on the index of each performance indicator, making the whole process very subjective (Mimba, 2012).^[5] Some of this subjectivity was removed in 2003 (LAN#239/IX//6/4/2003).

As a result, LAKIP evaluation is now based on five major components of performance management, with each given an importance rating under MSA Regulation 25/2012: (1) performance planning (35%); (2) performance measurement (20%); (3) performance reporting (15%); (4) performance evaluation (10%); and (5) performance achievement (20%). Following a comprehensive evaluation process each LAKIP report is given a score from 0 to 100. The score is then grouped into the six rating categories shown in Table 3.

[Insert Table 3 here]

Interviews determined that only seven (29%) of the interviewees considered that they had a relatively high likelihood of achieving their accountability goals via a PMS (ie, LAKIP). According to Blondal (2001), both measurement and reporting (as part of a PMS) are necessary to understand whether a government is accountable or not. The majority (71%) of interviewees thought that they had not achieved the level of accountability they would like. These perceptions were supported by the central government's annual evaluation on LAKIP reports. Based on the 2011 LAKIP evaluation, the majority of ILGs fell into the CC (50-65) category or lower. Only one ILG was ranked a B score which was the highest awarded for that year. In 2012, the number of local governments awarded a B increased to 6. The central government also publishes, on occasion, a list of city and district categories as the best ten in performance reporting. Even these top ten ILGs fell into the CC category. The lowest score for LAKIP evaluation in 2011 was 17.76 (category D).^[6] It appeared that, in general, ILGs were far from successful in implementing the PMS according to the LAKIP evaluation system.

In addition, the central government, via medium-term development plans called Rencana Pembangunan Jangka Menengah (RPJM) 2005–2010, stated that strengthening accountability and enhancing performance were priorities of the bureaucratic reform program within the

next five years. Strengthening financial accountability is directed at increasing quality and transparency of financial management and it is measured by sound administration indicators, auditors' opinions, and less KKN (corruption, collusion, and nepotism). Strengthening performance accountability is measured by the percentage of government entities implementing sound LAKIP and increasing accountability of performance. It is explicitly stated in the RPJM document that, for the next five years, 100% of government entities will be expected to get an unqualified opinion in their financial statements and at least 80% of government entities will have to show sound performance accountability via LAKIP.

Given the importance of accountability via performance measurement, it is important to understand what causes failure in the implementation of a PMS in the ILG context. The interviewees were asked to respond to questions regarding aspects that contributed to the success/failure of an innovation such as a PMS and their perceived importance. Again, using thematic analysis, the three main factors seen to be contributing to PMS implementation were: 1) direction from the top (ie management commitment) (33%); 2) ability (ie human resourcing) (17%); and 3) motivation (50%). Two examples from interviewees are:

In our ILG the main reason for the failure of performance measurement implementation was a lack of motivation followed by lack of ability and lack of direction. (K5, Planning)

Achieving accountability goal is easy to say but very difficult to be done. The real challenge is lack of understanding on appropriate performance indicators to be used by employees and officials. I believe this condition exists due to the low quality of employees and officials in our organisation. (K4, Planning)

Interview results revealed that interviewees who held a mid-level or lower position explained that they were not motivated to implement an effective PMS, as there was not enough support from the top. They also claimed that there was less direction from management on how to deal with the problems they faced when preparing performance reports, especially in

determining the appropriate indicators. Only four (17%) of the interviewees admitted that they did not have enough knowledge to implement and understand PMSs. This implies that normative isomorphism is evident in the other twenty (83%) ILGs interviewed. Without direction from management, normative isomorphism – via the mechanisms discussed earlier – was seen to be even more important in disseminating relevant knowledge and producing the performance information required.

Many of the respondents - 50% - explicitly mentioned lack of motivation as the crucial factor that caused the failure of the PMS implementation. What caused this lack of motivation was the subsequent question. Responses revealed that there was a close relationship between motivation and management commitment. To increase the motivation, top management would need to show more commitment toward implementing the performance measurement system, LAKIP. As these respondents stated:

A lack of motivation is the most important thing in the failure of any system including performance measurement systems. Once we have motivation we'll be able to set the right direction to follow and will strive for increasing our ability to achieve our goals. However, to do this we do need support from the top. Without that support, everything would be difficult. All depends on the leader at the top. (K1, Finance)

The main challenge in achieving accountability, in my opinion, is a lack of commitment from top level executives. Even though we in the middle or lower level officials have quite strong willingness to make an effort in achieving accountability goals it is really hard to make it happen as there is not enough support from the top. It seems that they [top level executives] did not really care about this matter. (K20, Finance)

In short, lack of commitment from the top decreased the level of motivation within the organisation and resulted in a lower level of internal accountability, and thus, a lower level of external accountability. One other factor was raised when interviewees were questioned further about challenges to achieving accountability in general, not just associated with implementing LAKIP. This factor was political interference. Many scholars have theorised

on the distinctions between public and private organisations. Greater reliance on political control is one such distinction (for example, Nutt, 2005). Interview results supported this literature including that of Polidano (2001) who claimed that administrative and political leadership were crucial to ensuring the success of public sector reform innovations. Respondents (29%) confirmed that political interest contributed to the difficulty in making ILG more accountable:

Based on my experience in our case there are too many political interests involved in almost every aspect of local government policy and action in enhancing ILG accountability. For example, a certain policy made by executive is considered alright at the beginning, however as the new election time approaching many opposing parties start questioning that policy in order to attract public attention. (K21, Planning)

Implied in the comments was the fact that ILGs have faced many challenges from internal and external parties. From inside the organisation, problems resulting from the low quality of their employees coupled with the low commitment of top level officials were apparent (implying the need for mimetic and normative isomorphism). At the same time, they had to deal with political pressure from outside the organisation (coercive isomorphism).

Conclusion

During the 1980s and 1990s the public sector was transformed as part of what was referred to as NPM. Stakeholders required government to be more accountable and many saw this being achieved more effectively by adapting ideas and management styles from the private sector (Hood, 1995). Performance measurement has played an important part in government agencies' efforts to meet the accountability demand (Harrison, Rouse and De Villiers, 2012; Polidano, 2001). Through governmental performance measurement initiatives, public agencies are expected to improve operational efficiency and effectiveness, enhance decision-making, and acknowledge greater accountability for achieving results (Cavalluzzo and Ittner,

2004). With more emphasis on performance, compliance and regulation, ILGs went through a period of change. One of the changes was the introduction of a PMS known as LAKIP in Indonesian local government. Central Government used LAKIP as a tool for funding based on ILGs conforming to reporting requirements (Mimba, 2012).

Prior literature, referred to above, made various contributions in regards to (a) the adoption of PMSs (for example Harrison, Rouse and de Villiers, 2012; Ramanathan, 1985); (b) the implementation of change management either in a developed country (such as Pina, Torres and Yetano, 2009) or a developing country (eg, Mir and Rahaman, 2005); and (c) the use of institutional theory (eg, Cruz, Major and Scapens, 2009; Sharma, Lawrence and Lowe, 2010) and, in particular, institutional isomorphism (Arnaboldi, Azzone and Palermo, 2010; Kilfoyle and Richardson, 2011). One of the major contributions of this study was to provide an in-depth conceptual overview and understanding of factors influencing the development and use of a PMS in a developing country within an institutional theory framework. By doing this, the research filled some of the gaps identified earlier in this paper. Hence, other contributions of the paper include the appearance of all three institutional themes within the findings and further proof (adding to, for example, the work of Pina, Torres and Yetano, 2009) that coercive pressure imposed by regulation is a major driver behind the development of performance indicators. By extending their empirical study to include interviews, the authors were able to tease out the evidence that mimetic isomorphism also existed in the implementation practices of ILGs – something that isn't always evident in empirical work alone. As well, normative isomorphism was determined to exist. With so many findings applicable to the way in which ILGs implement and use LAKIP – including the advantages associated with normative isomorphism and the creation of more educational opportunities – practical implications for Indonesia are evident (as discussed shortly).

Results of 24 interviews across local government in Indonesia provided contributions other than those just detailed. For example, it was determined that although employees perceived coercive isomorphism as being a driver of ILG compliance with LAKIP, many councils were still not reporting and those that were, were not doing it well. Many councils lacked management motivation with some choosing to merely mimic (mimetic isomorphism) what others were doing. Better-resourced councils made use of external consultants or local universities where knowledge was shared (normative isomorphism). Given the importance of accountability via a PMS, results presented here determined that ILGs were not using PMSs to their full potential. Interviews indicated a lack of commitment from the top as well as a low level of motivation within the organisation. Both of these findings have implications for internal and external accountability.

The findings will be used to help improve the quantity and quality of LAKIP reporting. By identifying factors acting as barriers to PMS use – such as commitment, motivation, lack of employee skills – local governments can work on improving these areas. Another factor raised by interviewees was the presence of political interference. Mollet (2007) contended that this could originate from within the organisation with corruption being an underlying reason. This claim would need to form part of a future research project to determine applicability in the current setting. Although only one report in one developing country, it should provide an impetus to improving PMSs in other developing countries. Finally, the research had three research questions that needed answering. The first was "Do organisations in developing countries actually use PMSs to aid decision-making and help plan for future performance improvement?" The results of the interviews not only supported the LAKIP rankings awarded by Central Government but established that in Indonesia at least, the current PMS – LAKIP – was not used to its fullest potential. In regards to question two, "Do the three isomorphic pressures exist in the development and use of PMSs?" then the answer,

as clearly outlined above, is – yes. Finally the third question: "If institutional isomorphism is evident, can accountability exist within the development and use of PMSs given these pressures." Supporting others such as Rhodes *et al.* (2012), this paper indicates that accountability may be perceived to exist in Indonesia, however, with not only isomorphic pressures creating issues for local government, but as well political and corruption indications, then there is still a long way to go in regards to a positive answer to this question. Perhaps Peters (2003) was correct when he indicated that for those countries trying to become a democracy, the difficulties associated with managers disassociating themselves from the political leaders, might mean that the reform process (and hence accountability) will never be truly implemented.

Notes

1. 'Development' and 'use' are used interchangeably with 'adoption' and 'implementation' throughout the paper. Both mean the same thing and it is a personal choice as to which each author prefers.
2. The results of the empirical study can be found in Akbar, Pilcher and Perrin (2012), "Performance Measurement in Indonesia: The Case of Local Government", *Pacific Accounting Review*, Vol. 24, No.3, pp.262-291.
3. Annual reports were not publicly available at the time – even though we approached the relevant regulatory body. However, interviews were more appropriate anyway given the type of information required.
4. BPKP (Badan Pemeriksa Keuangan dan Pembangunan) is a central government agency who responsible for providing audit and consulting services to other government entities. <http://www.bpkp.go.id/>
5. LAN stands for *Lembaga Administrasi Negara* or the National Institute of Public Administration, established 1957.
6. Resource: <http://www.menpan.go.id>

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Appendix 1

Interview Guide

Accountability

1. How would you define accountability in a local government context?
2. For the last decade, there appears to have been an increased interest regarding accountability in Indonesia in general and in local government in particular. Do you agree? If yes, what do you think has influenced this?
3. What aspect of accountability is the most important to you as a performance report preparer?
4. To whom do you (personally) consider you are accountable? Why?
5. Who do you consider your local government is responsible to? Why?
6. To whom is your performance report distributed?
7. What do you see as the biggest challenge to achieving accountability?
8. What are the chances of success in achieving accountability in a local government environment? What percentage would you give for this success?

Performance Measurement

9. When you develop performance indicators how is the measurement of relevant components determined? Who is involved in the process of developing indicators? Do you consult other staff such as engineers?
10. Why does your organization develop performance indicators?
11. Have you had training in performance measurement systems? If yes, please provide details.
12. Do you consider top management in your organization is committed to the development of performance indicators? If yes, what percentage would you give this commitment?
13. Do you use performance indicators in your local government? If yes for what purpose?
14. Why does your organization use performance indicators?
15. Do you believe that public sector officials have a clearer understanding of their objectives as a result of providing performance indicators? If yes, please provide details. If no, why?
16. What do you see as the biggest challenge to developing and using performance indicators?
17. Does your organization prepare a strategic plan? For what period?
18. If you answered yes to Q17, are performance indicators parts of the strategic plan?

Isomorphism

19. Is your local government dependent upon external funding to assist with the development of performance indicators? If yes, where does the funding for performance indicator development come from?
20. How do legislative requirements impact on the development of performance indicators?
21. Does the amount of funding you get impact on the number of performance indicators you develop?
22. Does the amount of funding you get impact on the number of performance indicators you use?
23. How do legislative requirements impact on the use of performance indicators?

24. What are these legislative requirements?
25. Do you refer to other local governments when preparing your performance reports?
26. Do you refer to external organizations—public or private—when preparing your performance report? If yes, what type of organizations?
27. Are you a member of any professional associations? Which ones? Do these organizations provide assistance in regards to the development and use of performance indicators within your organization?
28. Do you utilise outside expertise from universities or consulting firms to assist with your performance reporting practices?
29. Have you won an award? If so, which one (s)? Would you like to see an award system in place to recognise high performing local governments?

Others

30. One of the results from the survey was that performance indicators are not integrated in local government budgeting systems. Do you budget for performance indicators? If yes, which ones and why? If not, why not?
31. There are three aspects that contribute to the success/failure of an innovation such as performance measurement systems, these are: 1) direction, 2) ability, and 3) motivation. Do you agree? If yes, how would you rank them in terms of importance? If no, what do you think they are? Why?
32. Are there any other comments you would like to make in regards to the matters raised in the interview?

Table 1: Profile of Interviewees

ILG	Type	Location	Revenue *	Division	Gender
K1	District	Out-of- Java	460,934	Internal Auditor	Female
K2	District	Out-of- Java	486,821	Finance	Male
K3	District	Out-of- Java	492,713	Finance	Female
K4	District	Out-of- Java	739,782	Finance	Female
K5	District	Out-of- Java	465,003	Finance	Male
K6	District	Out-of- Java	477,197	Finance	Male
K7	City	Out-of- Java	418,417	Finance	Male
K8	City	In-Java	348,176	Finance	Female
K9	City	In-Java	375,119	Secretary	Male
K10	District	In-Java	700,427	Planning	Male
K11	City	In-Java	336,978	Secretary	Male
K12	District	In-Java	1,292,371	Secretary	Male
K13	District	In-Java	901,208	Planning	Male
K14	City	In-Java	715,241	Secretary	Male
K15	District	Out-of- Java	639,691	Finance	Male
K16	District	Out-of- Java	791,257	Finance	Male
K17	City	In-Java	703,967	Secretary	Male
K18	District	Out-of- Java	918,290	Finance	Male
K19	District	In-Java	864,314	Finance	Female
K20	City	Out-of- Java	706,573	Finance	Female
K21	District	In-Java	575,115	Secretary	Male
K22	District	In-Java	709,502	Planning	Male
K23	District	In-Java	909,361	Internal Auditor	Female
K24	District	In-Java	829,475	Secretary	Male

Note: * IDR millions

Table 2: Performance Reporting Preparation Process

Performance report preparation	Theme	Number of ILGs
<i>refer to:</i>		
Regulation & Guidelines	Coercive	15 (62.5%)
Other ILG Report	Mimetic	6 (25%)
Other Government Report	Mimetic	3 (12.5%)
<i>assisted by:</i>		
BPKP*	Normative	12 (50%)
Local University	Normative	5 (21.5%)
Independent Consultant	Normative	2 (8%)
MeNPAN** / State Minister	Normative	2 (8%)
Others (BPK^, LAN#)	Normative	3 (12.5%)

* BPKP (Badan Pemeriksa Keuangan dan Pembangunan) is a central government agency

** Menteri Negara Penertiban Aparatur Negara (State Minister)

^ Badan Pemeriksa Keuangan (Indonesian Audit Board)

Lembaga Administrasi Negara/State Administration Institute

Table 3: LAKIP Scoring

Score	Rating	Meaning
85–100	AA	Excellence
75–84	A	Great
66–74	B	Very Good
50–65	CC	Good
36–49	C	Fair
0–35	D	Bad