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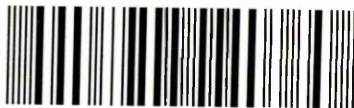
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**Field Studies of Management Control Systems Change
in Two Large Indonesian Universities**

Irvan Noormansyah

A thesis submitted in partial fulfilment of the requirements of
Sheffield Hallam University
for the degree of Doctor of Philosophy



June 2005

ABSTRACT

This thesis reports on the results of case studies on how management control systems (MCS) operate in two Indonesian autonomous universities. The study is motivated by the lack of management accounting research in Indonesia in specific and in the developing world in general. The aim of the study is to provide understanding on how the operations of management controls in the two institutions are shaped by changes in their institutional environments. A change in an organisational status (e.g. from government to autonomous) constitutes a change in the institutional template of the organisation which is likely to impact on the MCS. The Indonesian higher education sector is currently being deregulated in response to both internal and external pressures. Despite this, there is little evidence on how MCS function to support the new organisational status of the higher education institutions.

This thesis filled the gap in the literature by exploring the impacts of the change of the universities' status on MCS. It thus investigates how MCS operate in response to the reforms and to other institutional factors. To achieve the aims of the study, the thesis uses a longitudinal case study approach. Data were collected using a triangulation approach that combines data from three main sources namely, interviews, observations and document analysis. The analysis is informed by the new institutional sociology (NIS) theory (Powell and DiMaggio, 1983). However to address the limitations of NIS, the analysis also examined the interplay between institutional, intra-organisational power relations, and competitive forces.

This thesis highlights a number of empirical findings. First, pressure from the government as the biggest fund provider is the primary source of MCS change in the universities. Despite the reality that the universities now operate as autonomous institutions, they are still influenced by external forces, especially from governmental institutions such as Directorate General of Higher Education and Finance Ministry (for example, in the preparation of budget). Second, national and organisational cultures also have been identified to be influential in the decision to adopt new systems (including MCS) in the universities. Third, this study reinforced the opinion that the willingness of an organisation to conform with rules and requirements is not only for reasons of efficiency, but also may be necessary to increase its legitimacy, resources and survival capabilities. Fourth, this study also revealed that the complex and varied institutional factors confronting the organisations increased the use of informal controls. Overall, the thesis makes significant contribution to the literature on management controls in the developing world and in the higher educational environment.

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Abbreviations and Glossary

ABB		Activity-Based Budgeting
APBN	Anggaran Pendapatan dan Belanja Negara	State Budget
ART	Anggaran Rumah Tangga	Rules of Organisation
ASEAN		Association of South East Asian Nation
Bappenas	Badan Perencana Pembangunan Nasional	National Development Planning Board
BPS	Biro Pusat Statistic	Central Bureau of Statistics
BHMN	Badan Hukum Milik Negara	State-Owned Legal Board
BPKP	Badan Pemeriksa Keuangan Pemerintah	the Financial And Development Supervisory Board
BOP	Biaya Operasional Pendidikan	Cost of Education Operational
BUMN	Badan Usaha Milik Negara	State-Owned Enterprises
Capeg	Calon Pegawai	Employee Candidate
Dekanat		Faculty Management
DIKTI / DGHE	Direktorat Jenderal Perguruan Tinggi	Directorate General of Higher Institution
DIK		Recurrent government allocated budget
DIP		Government investment budget
DP3		Work Performance Appraisal List
DPR	Dewan Perwakilan Rakyat	House of Representatives
HEI		Higher Education Institution
IAI	Ikatan Akuntan Indonesia	Indonesian Institute of Accountants
IMF		International Monetary Fund
InPres	Instruksi Presiden	Presidential Instruction
IrJen Depdiknas	Inspektorat Jendral Depdiknas	Inspectorate General of Department of National Education
Kegotong-royongan		community self-help
KKN	Korupsi, Kolusi dan Nepotisme	Corruption, Collusion, and Nepotism
KPKN	Kantor Pemeriksa Kekayaan Negara	State Wealth Auditory Offices
LAKIP	Laporan Akuntabilitas Kinerja Instansi Pemerintah	the Performance accountability Reports for government units
LDCs		Less Developed Countries
MenKeu / MOF	Menteri Keuangan	Ministry of Finance
Menneg PAN	Menteri Negara Pendayagunaan Aparatur Negara	Minister of State for State Apparatus Empowerment
MIPA	Matematika dan Ilmu Pasti	Mathematic and Natural Science
MWA	Majelis Wali Amanah	The Board of Trustees
PAU	Pusat Administrasi Universitas	University Administration Centre
PP	Peraturan Pemerintah	The Government Regulation
Propenas	Program Pembangunan Nasional	The National Development Program
PSAK	Pernyataan Standar Akuntansi Keuangan	Statement of Finance Accountancy Standard
PSCD	Panitia Seleksi Calon Dekan	Committee of Candidate Dean Selection

PTN	Perguruan Tinggi Negeri	Public Higher Education
PTS	Perguruan Tinggi Swasta	Private Higher Education
PNS	Pegawai Negeri Sipil	Civil Servant
Rektorat		University Management
Renstra	Rencana Strategis	Strategic Plan
RUU-PTN BHMN	Rancangan Undang-Undang Perguruan Tinggi Badan Hukum Milik Negara	Bill of Laws of University of State Owned Legal Board Program
SAF	Senat Akademik Fakultas	Academic Senate of the Faculty
SAU	Senat Akademik Universitas	Academic Senate of the University
S1 Program	Strata Satu	Undergraduate Program The Sarjana (S1) degree is awarded after completing four years of study. Professional disciplines (medicine, dentistry, science, pharmacy, engineering, etc.) require an additional two to six semesters.
S2 Program	Strata Dua	Master Degree The Magister (S2) is awarded after two more years of course work and research following the Sarjana, including the writing of a thesis. Admission requires an undergraduate GPA of between 2.5 and 2.75, letters of recommendation and sometimes English language proficiency.
S3 Program	Strata Tiga	Doctorate The Doktor (S3) requires additional coursework after the Magister and the writing of a dissertation.
S0 Program	Strata Nol	Diploma
SMA	Sekolah Menengah Atas	Senior High School
SMP	Sekolah Menengah Pertama	Junior High School
SPP	Sumbangan Peningkatan Pendidikan	The Educational Development Contribution / Tuition Fees
UMR	Upah Minimum Regional	Regional Minimum Wage
UU	Undang-Undang	Law or Act
UUD	Undang-Undang Dasar	State Constitution
WB		World Bank
WTO		World Trade Organisation

**FIELD STUDIES OF
MANAGEMENT CONTROL SYSTEMS CHANGE
IN TWO LARGE INDONESIAN UNIVERSITIES**

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1.1. Background of Research

A Management Control System (MCS) is the systematic use of management accounting information involving social, cultural, political, and economic dimensions in order to plan, monitor, detect and correct unintentional performance errors and intentional irregularities in an organisation's activities to ensure that its activities conform to its plan and that its objectives are achieved (Macintosh, 1994; Berry et al., 1995; Chenhall, 2003). MCS change has attracted the attention of researchers in recent years (see Hoque and Hopper, 1994; Cobb et al., 1995; Granlund and Lukka, 1998; Burns and Vaivio, 2001; Granlund, 2001; Salas, 2001; William and Seaman, 2001; O'Connor et al., 2004). The reasons for MCS change identified in these studies include deregulation, the business environment (e.g. competition, legislation, regulation, and financial markets), new technological development, influence from professional accounting bodies, administrative and social control, organisational structure, organisational capacity to learn, an organisation's independence, an organisation's size, and influence from the native and corporate culture.

One area where change is currently taking place in Indonesia and in other developing countries is the higher education sector. The education sector is imperative for the success of a nation. Education represents one of the facilities available to improve a person's abilities and skills, so the quality of human resources will depend upon the quality of the people's education. The importance of education is reflected in the Indonesian 1945 Constitution and State Broad Line Policy stating that *education is the right of every citizen aiming to promote the intellectual life of the nation*. Hence, access to knowledge plays a key role in the improvement of the socio-economy of a nation and

Introduction
becomes a major source of competitive advantage (Bloom, 2002). As Gie, the Chairman of the National Development Planning Board (BAPPENAS) (Kompas, 27th January 2004), said:

“The education sector plays an important role in raising a nation’s dignity. Education development cannot succeed unless they are supported by the implementation of a good management system and good teaching concepts in the institution.”

To enhance the contribution of the education sector, the Indonesian government has deregulated and reformed its national education, including its higher education sector (Susanto, 2000). In 1999, two Indonesian public universities – Didik University and Ajar University – were transformed from state universities to a legal entity, to become autonomous, self-regulating institutions. As autonomous, self-regulating institutions, these universities are responsible for maintaining the quality and standards of their education process. They must also show full public accountability.

The universities have been selected to function as "guides" in Indonesia’s move toward greater autonomy for the other public universities in the other cities. If the universities are successful in implementing their autonomous status, other state universities will also be transformed into “autonomous universities”. BAPPENAS in the area of education for 2005 is to initiate the application of campus autonomy in a number of other state universities. On the interest shown by State Universities (PTN) to become autonomous universities, the Director General of Higher Education (Dikti) at the National Education Ministry (Depdiknas), Satryo (Kompas 08-10-03), said that:

“There are 10 PTNs which have proposed themselves to become PTN with BHMN (State-Owned Legal Board) status by 2005.”

This research explores the impacts of the deregulation of the higher education sector on management control systems (MCS) in the two Indonesian national universities

that have so far been deregulated. It investigates how MCS operate in response to deregulation and to other institutional factors. Deregulation which changes autonomy constitutes a change from one institutional template to another. More explanation about the backgrounds of the universities can be obtained in Chapter Five of this study.

1.2. Statement of Problem and Research Questions

Although deregulation of higher education has been the subject of much discussion, little research has been done in terms of changes in management controls as a result of the deregulation, especially in Indonesia and the developing world. Most of studies on the influence of deregulation on MCS in an organisation are focused on the experiences of Australia and other developed countries (see Meek and Wood, 1998; Crebert, 2000). As a result, Susanto (2000) argues that not many people in Indonesia especially, including the academic circle, fully understand the concept of university autonomy, which leads to various opinions and actions with a negative nuance. Even though some PTNs (State Universities) have expressed their readiness to operate the university autonomously, they argue about the lack of information available on how to manage and govern the new university (Susanto, 2000).

This study examines how MCS operate in autonomous universities in Indonesia. The study is necessitated by the lack of research on this topic. Hence, to achieve the aims of the study, six main research questions are investigated¹, which are:

1. What changes occurred in MCS in the universities in response to the deregulation of the Indonesian higher education sector?

¹ Discussions of new institutional theory, including institutional and competitive isomorphism and organisational power relations, which form the basis of the research questions, are provided later.

2. How did pressure from the government and other organisations upon which the universities depend (coercive isomorphism) influence the operations of MCS in the universities?
3. How did the universities adopt certain MCS practices in an attempt to model themselves on other successful organisations (mimetic isomorphism)?
4. What are the influences of professional bodies and national and organisational cultures on MCS practices in the universities (normative isomorphism)?
5. How is MCS in the organisations shaped by the interplay between institutional and market forces?
6. How is MCS in the organisations shaped by the interplay between institutional forces and organisational power relations?

1.3. The Aims and Objectives of the Study

The desire to discuss this topic arose from the ever-increasing deregulation activities that have been taking place worldwide and, more evidently, within Indonesia. In today's educational system, university deregulation is a very important issue: it is a major activity within the educational system, especially in Indonesia. As has been stated before, many countries have already or are going to change their state university systems to make them autonomous.

In Asia, there are some countries such as China, Malaysia, Thailand, Cambodia, Hong Kong, Singapore, and Indonesia who have reformed their higher education institutions (Minxuan, 1998; Lee, 2001; Couturier, 2003; Ma, 2003). Even other non-Asian countries such as the Czech republic (Svecova, 2000) and Australia (Meek and Wood, 1998; Crebert, 2000) have also deregulated their higher educational sector. China reformed its higher educational sector over a decade ago. Presently, most Chinese state universities have to generate more than 50 per cent of their own income (Ma, 2003).

Chapter One
Introduction

The Malaysian government has allowed local universities to borrow money, to enter into business ventures and to set up companies, and has raised students' tuition fees (Couturier, 2003).

This study will be an important step towards analysing and providing a better understanding of the process and implications of university reform in Indonesia especially and less developed countries (LDCs) in general. The research will have policy implications for the government, academics, professionals and civil society in Indonesia and in other developing countries. The study is also intended to provide a better understanding of the role of management control systems (MCS) in Indonesia.

The study will focus on the experience of the Indonesian higher education sector for several reasons. Firstly, from an examination of the literature, it is clear that even though university sector reforms in Indonesia and in other parts of the world are increasing, only a few studies have been conducted on the impacts or outcomes of such regulations in these countries. Examples of this type of research are Watts (1996), who examined budgetary practices across Australian Tertiary Institutions since the demise of the binary systems in 1988, and Meek and Wood (1998), who explored 36 Australian publicly-funded universities to determine what, from the senior managers' perspective, are considered to be the main issues and problems regarding the universities' operation after the reforms. Even though a review of previous literature found some published journals that explore the effect of higher education deregulation in Australian Universities, no published research has been found on the effect of the deregulation on accounting controls in other countries, especially in Indonesia. Furthermore, an examination of the literature found that a majority of studies on management control systems in LDCs were also only focused on state-owned enterprises, family-owned

businesses, and privatised companies (see Ansari and Bell, 1991; Hoque and Hopper, 1994; Hoque and Hopper, 1997; Alam, 1997; Rademakers, 1998; Uddin and Hopper, 2001; Tsamenyi et al., 2002; Hopper et al., 2003a, 2003b; Uddin and Hopper, 2003).

Secondly, conducting the study in Indonesia will assist the research process since the researcher is able to speak the same language as the agents. Thirdly, Indonesia is one of the major countries to have implemented the IMF's economic reforms, which have subsequently led to deregulation of the higher education sector. Furthermore, Indonesia has unique characteristics necessitating such a study. Indonesia is a very important country for a number of reasons. The economies of Southeast Asian countries, and Indonesia in particular, are among the fastest growing in the world. Indonesia is an important country geopolitically and economically. From a strategic point of view, Indonesia commands a large amount of space in that part of the world. Economically, it is a destination country for large investors such as the USA and Japan.² Apart from that, with a population of more than 225 million, Indonesia has become a favourite country for traders from around the world (US Department of State, 2001).

The main objectives of the study are to:

- (1) Examine changes in the higher education sector in Indonesia
- (2) Investigate how management accounting controls operate in autonomous universities in Indonesia
- (3) Examine any perceived changes in management accounting controls after the deregulation
- (4) Investigate the impacts of institutional factors on management controls in the universities

² http://www.indoindians.com/vis_info.htm

1.4. Structure of the Thesis

Figure 1.1 below presents the outline of this thesis, which is divided into twelve chapters, each of which is described briefly below.

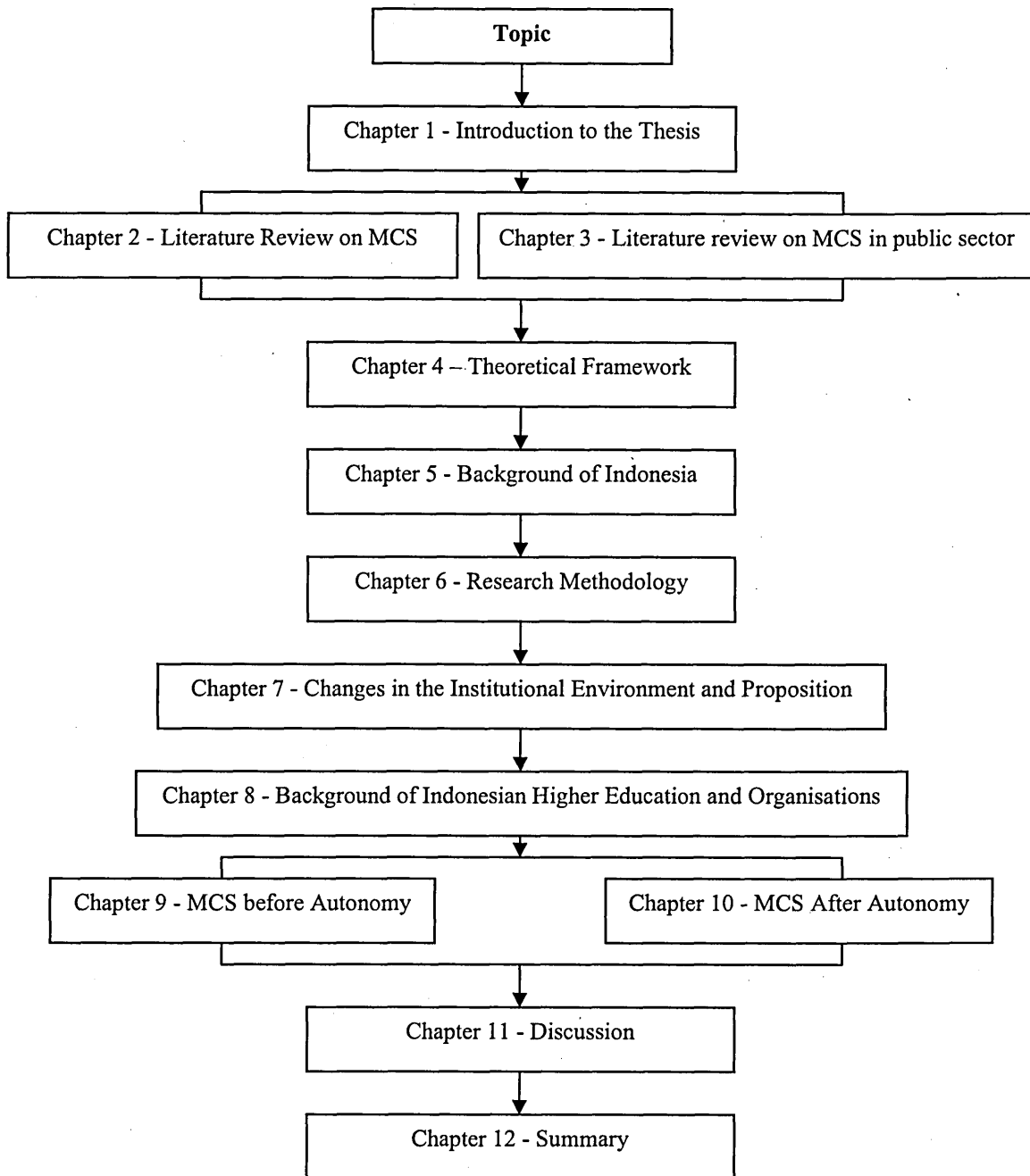


Chart 1.1: Structure of the Thesis

Chapter One, the introduction to the thesis, presents four sections which present background to the research, a statement of problem, research questions, the aims and objectives of the study, and an explanation of the structure of the thesis.

This study has two chapters that review the previous studies on MCS. The first chapter is Chapter Two, which outlines the literature reviews and which is divided into three sections. In the first part, the definition of management accounting control system (MCS) is explained, followed by a discussion of MCS changes to inform readers of the specific reasons why an organisation would reform its management control systems. The third section provides a discussion of the activity of MCS in less developed countries (LDCs). This section is useful to explain to the reader how organisations in LDCs practise MCS, including formal and informal controls, and also what factors influence the practice of MCS in an organisation in LDCs.

The next literature review chapter, Chapter Three, provides details of the activity of MCS in the public sector, especially in the higher educational sector. The first sections of this chapter provide an explanation of external environments and budgeting systems in the public sector. The second section provides a review of the studies and published articles concerning higher education institutions. This section includes a discussion of the factors that influence the day-to-day activities of universities in LDCs, how universities practise their MCS, and also the relationship between the systems and organisational power relations.

The theoretical framework of the thesis is provided after the literature review chapters in Chapter Four. The chapter is divided into four sections. The first section discusses the justification for using institutional theory as the theoretical framework for this doctoral research. This section compares the institutional and contingency theories. It is followed by a discussion of the relevance of the new institutional theory in offering an opportunity to explore the process of change in MCS in the universities. This is then

linked with reviewing the old and new institutional theories and looks at their relevance. This section further discusses institutional isomorphism, which are coercive, mimetic and normative isomorphism. In the section three, this study reveals the shortcomings of the new institutional theory to provide a more complete explanation of MCS change. The discussion includes how to solve these shortcomings through interplay between institutional theory, power and market forces. The fourth section is a review of the use of institutional theory in MCS research.

Chapter Five provides background to the external environment of the two studied universities to support the discussion in this study. The first section describes the background of the Indonesian population. The next section describes the history of Indonesia. This section is followed by an explanation of the Indonesian legal system. The fourth section describes the culture of Indonesian society, and continues with a section that explains the labour force in the country.

Chapter Six describes the research methods and comprises five sections. The first section explains the research paradigm assumptions. The second section reviews the research methodology of this study and the justification for the use of qualitative research as the research methodology. The next section reviews the case study approach, including the advantages and disadvantages of case studies and the use of the approach in MCS research. The fourth section describes how the study approaches data collection, including interviews, documentary/archival records, selection of organisations and participants. The next section describes how the author undertook the fieldwork in the two universities in Indonesia.

Chapter Seven explains the background of Indonesian higher education. This chapter is divided into three sections, beginning with a first section that explains the higher education reforms in Indonesia, including the definition of autonomy and the factors that influence the Indonesian government's decision to reform the Indonesian universities. This section is followed by a section that describes the advantages of university autonomy. The next section consists of the propositions of this study.

Chapter Eight explores the background of the education system in Indonesia and the background of the researched organisations. This chapter is divided into three sections, the first of which explores the education system in Indonesia, including its structure and history, the higher education system, and also performance and problems in Indonesian higher education. The second section gives the background of Ajar University followed by the background of Didik University.

Following on, Chapters Nine and Ten present the research findings obtained from observations in the field study. An explanation of MCS activities before autonomy in 1999 is provided in Chapter Nine, while Chapter Ten provides an explanation of MCS activities after autonomy. These chapters explore how the MCS have been used in the two organisations.

This is then followed by a discussion of the findings in Chapter Eleven. This chapter explores the change process of the management control systems and why the new systems exist in the two studied organisations using the theoretical framework provided in Chapter Four.

The final chapter of the thesis, Chapter Twelve, provides a section on the conclusions of the study. The first section summarises the findings in this thesis. The next section describes the knowledge contributions provided by this study, which are discussed. The final section provides a further discussion on the strengths and limitations of the study and presents recommendations for future research.

CHAPTER TWO

MANAGEMENT CONTROL SYSTEMS (MCS):

A REVIEW OF RELATED LITERATURE

2.1. Introduction

This chapter discusses the existing literature concerning the roles of management control systems (MCS) in organisations, which is important in order to provide the foundations to identify and understand MCS in order to study the organizations in this study. The literature review presents the research that has already been conducted on the public sector's MCS, more specifically, in higher education institutions. It develops an understanding of and identifies the research area to which the study will contribute. In addition, the literature review identifies limitations in the existing literature, and thus provides a justification for the current study.

This chapter is divided into four parts. After introducing the chapter, part two discusses the definition of Management Control System (MCS), followed by a review of the literature on MCS change to inform readers of the specific reasons behind an organisation's decision to reform its management control systems. The third section analyses the activity of MCS in less developed countries. This section is useful in explaining how organisations in LDCs practise MCS, including formal and informal controls. This part also discusses the factors that influence management accounting practices in LDCs, which should be recognised by all accounting scholars in order to make the accounting techniques effective. The final part of this chapter provides a summary of the chapter and identifies the justifications for the thesis.

2.2. The Definition and Features of Management Control System (MCS)

Over the past years, a number of researchers (such as Evans and Bellamy, 1995; Modell, 1996; Otley, 1999; Lind, 2001) have examined the operation of MCS in organisations. These studies have provided further understanding of the role of MCS in their organisational context.

A management control system has an important function in modern industrial organisations (Otley and Berry, 1998). It refers to the systematic use of management accounting information involving social, cultural, political, and economic dimensions in order to plan, monitor, detect and correct unintentional performance errors and intentional irregularities in a firm's activities to ensure that its activities conform to its plan and that its objectives are achieved (Macintosh, 1994; Berry et al., 1995; Chenhall, 2003). Euske and Riccaboni (1999) consider MCS as a way to control the internal interdependencies (e.g. relationship between management and workers, and between working units in the organisation) and external interdependencies (e.g. relationship with the society and state). Ansari and Bell (1991, p.4) consider control in an organisation as:

“all organisational arrangements, formal and informal, designed to accomplish organisational objectives. It includes formal structure, operational controls, rewards, budgeting, planning and other similar activities.”

An organisation can use MCS information to scan its environment and identify any changes in the industry and in the strategy of competitors in order to survive - from any threats such as substitute products and services, the nature and intensity of competition within the industry, and the bargaining power of suppliers and customers – and succeed in a competitive market (Mia and Clarke, 1999). The use of MCS information can also promote an organisation's performance by providing feedback on the implementation of plans and the completion of jobs that helps managers to improve their performance, as feedback allows them to identify and correct errors, and reduce task uncertainty by

providing relevant information or cues. With its capability to provide information for control, coordination, performance, evaluation, and for motivating managers, MCS is a useful tool to help managers to manage their organisation in an effective and an efficient manner. Mia (1993) concludes that the result of this system should (i) promote effective managerial decision making, (ii) lead to an improvement in managerial performance (i.e., accomplishment of managerial role), and (iii) job satisfaction (i.e., satisfaction with the current job).

The control process involves a series of steps, which are: make plans, perform in pursuit of those plans, monitor actual performance, compare actual performance with planned performance and identify any areas that are 'out of control' (feedback), and finally take steps to establish control (Woolf and Tanna, 1988). Otley (1999) argued that MCS is very beneficial for managers since it provides them with information that is useful for performing their jobs and for developing and maintaining viable patterns of behaviour in their organisations.

Furthermore, previous MCS literature (such as Evans and Bellamy, 1995; Modell, 1996; Otley, 1999; Lind, 2001) has discussed different features of MCS. Figure 2.1 below summarises some of the features of MCS that have been examined by the researchers. The figure below also shows that every organisation may apply different features of MCS.

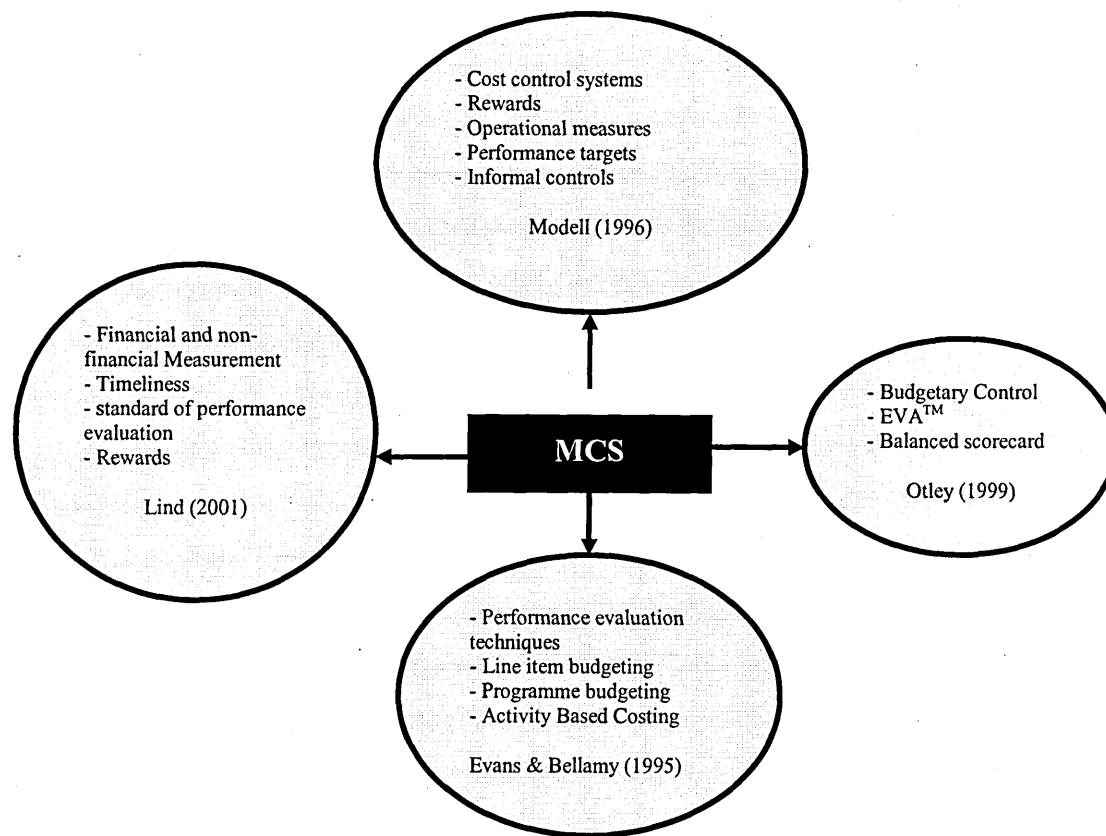


Figure 2.1: Some features of management accounting and control systems

Lind (2001) presented a case study of a Swedish company that changed their control system because they implemented World Class Manufacturing (WCM) by discussing financial and non-financial measurement, the time the information was delivered, the standard of performance evaluation including budget and previous performance standard, reward systems, and visibility, which were closely connected to explain how the department manager and all the shop managers can observe and control the unit's operations.

Modell (1996) discussed implementation control systems in district and specialist clinics in Sweden, and found that the clinics have different control systems. In terms of cost control systems, he found that district clinics are evaluated on targets reflecting the financial surplus or deficit they generate. They use budgets and establish revenue and

time utilisation targets for employees. The clinics use these targets to decide pecuniary rewards. Modell (1996) further found that it is difficult to find adequate measures reflecting the operations carried out by specialist clinics: such formal targets are not established in these clinics. At these clinics, communication and information sharing generally takes place on a more informal basis and is less concerned with financial issues than at the district clinics. As a result, pecuniary rewards do not exist at the specialist clinics.

Evans and Bellamy (1995) discussed the use of performance evaluation in the Australian public service industries. They argued that assessment of performance in service industries is more complicated than the manufacturing industries. In the paper, they explained that the performance evaluation process in the Australian public sector has been limited to line item budgets (inputs) which bear no relationship to either the activities (processes) or the performance (outputs) of the participants. However, as the result of budget cuts, the government in Australia has worked to improve performance measures by introducing Activity-Based Costing (ABC) because the process of ABC brings benefits to the organisation, forcing management to consider the drivers that affect costs.

Otley's (1999) paper developed a framework for analysing the operation of management control systems structured around five issues that relate to objectives, strategies and plans for their attainment, target setting, incentive and reward structures, and information feedback loops. He tested the framework against three major systems of organisational control, namely: budgeting, economic value added, and the balance scorecard.

2.3. Management Control System Change

Drawing on previous studies (such as Hedberg and Jonsson, 1978; Johnson and Kaplan, 1987; Argyris and Kaplan, 1994; Bromwich and Bhimani, 1994), Granlund (2001) concluded that accounting systems are difficult and slow to change, despite significant changes in the operating environment of organisations which put tremendous pressure on accounting to change. However, Granlund (2001) argued that an organisation would be more to choose to continue to develop its management accounting practices than to give in to the resistance to the intended changes.

As a result, in recent years, many organisations have experienced significant change to their organisational design, environments and technology. Several researchers (see Hoque and Hopper, 1994; Cobb et al., 1995; Granlund and Lukka, 1998; Burns and Scapens, 2000; Burns and Vaivio, 2001; Granlund, 2001; Salas, 2001; William and Seaman, 2001; O'Connor et al., 2004) have investigated management accounting control systems change. These studies have identified antecedents to management accounting change, including the business environment (e.g. competition, legislation, regulation, and financial markets), deregulation, new technological development, influence from professional accounting bodies, administrative and social control, organisational structure, organisational capacity to learn, an organisation's independence, an organisation's size, and influence from the native and corporate culture.

Granlund and Lukka (1998) analysed forces that cause convergence and divergence in management accounting practices around the world, and their study offers a good source of the main drivers of management accounting change. They argued that it is necessary to study the historical development of an organisation, the way the organisation and its management control systems developed, as well as the process of transformation that they have gone through.

Hoque and Hopper (1994), Collier (2001) and Modell (2001) argued that organisations depend on support from their external environment (e.g. government) for their survival and continued operation. As has been argued by Modell (2001) and Collier (2001), the role of the state, through legitimating processes, is powerful, and organisations (especially public sector institutions) need the support of governments, since their operations are regulated by the government, and the institutions are dependent on government for the acquisition of resources to support purposive activity. Modell (2001) identified the influence of central government in the implementation of management accounting systems by noting that there is growing dependence of Norwegian healthcare institutions on central government, caused by the increasingly centralised control of funding. A regulatory environment limits diversity by prescribing standards across the organisations in the same industry, which includes prescribing a financial reporting standard, budgeting process, and human resources practices (DiMaggio and Powell, 1983; Oliver, 1997; Granlund and Lukka, 1998). However, regulation also inspires changes in an organisation's strategy, structure and process (Conway et al., 1994; Meek and Wood, 1998). These research findings have been supported by Hoque and Hopper (1994) who concluded that the wider social, economic, political and institutional contexts influence the way management control systems operate in public sector organisations.

Libby and Waterhouse (1996), Laitinen (2001) and Williams and Seaman (2001) identified the size of an organisation as an important factor influencing MCS change. They argued that the relationship between size and administrative change is significant and may act as a driver to change in MCS. They add that larger firms may have additional resources to innovate, modify, upgrade or replace existing systems.

Organisations with more resources have better opportunities for learning, thus making it easier for management accounting change to take place. Therefore, an organisation that has invested in a large number of accounting personnel may respond to changes in or challenges arising from their environment by changing their MCS (Libby and Waterhouse, 1996). However, Libby and Waterhouse (1996) also argued that bureaucratisation also increases with size and may act as a deterrent to MCS change.

Burns and Vaivio (2001) argued that advances in information technology have driven innovation and change in the collection, measurement, analysis and communication of information within and between organisations. This has been facilitated in particular by such technologies as enterprise resource planning systems, e-commerce, the Internet, electronic data interchange and electronic meetings.

In addition to the changes inspired by training and education programmes from several leading international bodies such as the Chartered Institute Management Accountants (CIMA), the Association of Chartered Certified Accountants (ACCA), and the Certified Public Accountants (CPA) (Burns and Vaivio, 2001)³, MCS change has also been influenced by donor institutions such as the World Bank (WB), the Asian Development Bank (ADB), and the International Monetary Fund (IMF), especially in developing countries in Asia and Africa (Udin and Hopper, 2001; Tsamenyi et al., 2002). This change is necessary due to the financial over-dependence of these countries on donor institutions. As a result these institutions have become major drivers for change in LDCs. Through conferences, workshops, educational programmes and professional publications, information is exchanged about what practices are appropriate in what

³ They also point out, as an example of the influence of a professional body on management accounting change, that, in the UK, the Chartered Institute of Management Accountants (CIMA) has revamped its examination curricula to include subjects apparently more in keeping with the future role of a management accountant – e.g. systems and project management, organisational management and strategy.

circumstances for the practitioners. Hence, different organisations, employing individuals with similar educational backgrounds, interests and contacts, become more similar in their need for informational support and, consequently, in the types of systems they consider acceptable.

The importance of professional bodies in management accounting systems change has been studied by Carpenter and Feroz (2001): their study about the use of Generally Accepted Accounting Principles (GAAP) in four US state governments found that, if they are not active in professional associations, accounting bureaucrats may miss the educational process that is believed to be an important factor leading to early adoption of GAAP.

There are also both direct and indirect pressures from trans-national institutions (e.g. the European Union (EU) agreement, the North American Free Trade Agreement (NAFTA), the Asia Pacific Economic Cooperation (APEC) agreement, and the World Trade Organisation (WTO)) on firms to change their management practices to be consistent with the mandates of the institutions (Grandlund and Lukka, 1998). DiMaggio and Powell (1983) argued that the trade and professional associations also reduce organisation heterogeneity through the issue of, for example, standards and rules of conduct among the organisations in the same industry.

Granlund (2001) investigated MCS change in a large Finnish food manufacturing enterprise (Foodco) and observed several forces and factors that inhibited MCS change in the organisation. One of these factors was the economic situation, including the intensity of competition (Salas, 1992; Libby and Waterhouse, 1996; Mia and Clarke,

1999; Granlund, 2001; Laitinen, 2001; O'Connor et al., 2004) and severe financial situation (Salas, 1992; Granlund, 2001).

Miller (1995), in his book that compares the management of change in twenty universities in Australia, Canada and the United Kingdom, stated that the 'market' has been an increasingly important concept in the changing of organisations' management, especially in higher education institutions, for many years. Based on the study of Yakou and Dorweller (1995) on the chief accounting officers of British, French and US organisations, Libby and Waterhouse (1996) hypothesised that competition provides an incentive to change management accounting control systems. Libby and Waterhouse (1996) further hypothesised that the MCS change is higher for firms operating in a more highly competitive environment where understanding costs and measuring performance are keys to survival. Mia and Clarke (1999) further explained that market competition creates turbulence, stress, risk and uncertainty for companies so that organisations in many countries are continuously revising their management accounting systems in response to the threats and opportunities in the competitive environment in their country.

Laitinen (2001) investigated management accounting change in 93 small Finnish technology firms, concluding that management accounting systems that help management in large organisations to identify directions for future action may be ineffective in small technology companies, and the probability of a company's survival is sensitive to the intensity of competition and cost efficiency. He then concluded that there are different expectations for management accounting changes from four types of organisations. The first is the stable and conservative organisation that has little or no pressure or motivation to change management accounting systems to improve; second,

the change-oriented organisation that is forced to change and improve its management accounting systems to compensate for a large negative effect, especially because of high competition; third, the performance-contented organisation that has no real motivation to change its management accounting system since there is no competition; fourth, the discontent, resourceless organisation that adapts its management accounting systems although it has a low motivation for change and is acutely resource-constrained because this organisation has high competition with a shorter customer relationship.

Apart from the market reforms that consequently increase competition, Salas (1992) and Granlund (2001) also identified severe financial situation as being one of the most important economic/financial factors affecting management accounting change in the companies they studied. For example, Salas (1992) found that the management accounting practices in Spanish organisations have been influenced by the late 1970's economic crisis.

Granlund (2001) further argues that the professionalisation of business-oriented management accounting personnel (possibly because of university education) creates the potential for modernisation of the management accounting system with enhanced relevance and strategic management support. The changes have also come about as a result of institutional factors such as the imitation of other companies' practices and the use of consultants who market global solutions for managerial problems.

Kostova and Roth (2002) examined the adoption of new organisational practices by subsidiaries of a multinational corporation (MNC) and argued that the institutional profile of a host country may affect the adoption of a new practice at a foreign subsidiary. First, they found that in MNC subsidiaries, when the headquarters are

relatively powerful, the direct effect of the local institutional environment may be somewhat constrained. For example, none of the foreign units of the MNC they studied had adopted a quality management practice before the headquarters' initiative, even though the practice was not new in a number of recipient countries. This finding is similar to that of Granlund and Lukka (1998), who concluded that reforms in the divisions' or subsidiaries' management accounting is initiated by the headquarters or parent company.

Second, Kostova and Roth (2002) argued that the adoption or choice of a new practice is through individuals in the subsidiaries that have been influenced by their cognitions and beliefs, which in turn have been shaped by the external institutional environment in which they operate. Cobb et al. (1995) found in their study that all the accountants and managers of the multinational banks that they studied agreed that environmental pressures were the primary reasons for many of the changes, but that internal factors were also important, where the influence of individuals as change agents was particularly significant in their case study. Modell's (2001) study highlights the large influence of managers proactively designing and implementing systems for performance measurement in the context of recent reforms within the Norwegian public health sector. This implies that individuals do not just accept any form of accounting system within the organisations. Granlund (2001) found that accounting systems largely involve human factors. Management accounting control systems are passive tools designed to assist a manager's decision making. However, individuals are active agents involved in constructing and interpreting management control systems (Preston, 1991). In other words, people are not passive objects but rather they are active agents capable of altering their own environments as well as destinies (Held, 1980). An organisation is a social system which consists of a collection of individuals who create a sense of social

order, shared culture, a history, a future, and a value system (Cooper, 1981). Zucker (1987) and Scott (1995) argued that individuals are assumed to be approval-seeking, susceptible to social influence, and relatively intractable creatures of habit and traditions.

It is very useful to analyse organisational cultures and the way in which they are created, kept alive, modified, used and destroyed (Cooper, 1981). Grindle (1997) stated that organisational culture is a useful concept for explaining the difference of management activities between organisations. Culture provides an interpretation for organisational participants of their own situation and impels them to action. In the process of organising their activities, organisational participants represent, enact and thereby create their situation and purposes (Preston, 1995). Language is important to create the social interaction among individuals in the organisation in order to use management control systems.

Granlund (2001) identifies further obstacles to the change process, including scarce financial and human resources, complex existing technology systems, organisational routinisation, conservative organisation culture, failure to secure legitimacy for the changes in the general turmoil of transformation, fear of an increasing workload for accountants, and limited management support.

Although the explanations above have been primarily concerned with the external organisational environment that influences MCS change (i.e. the broader social, economic and political institutions of the organisational field and also the society in which the organisation is located), Burns and Scapens (2000), however, argue that we

also have to recognise the internal factors within the organisation (i.e. rules, routines, and power relations) to discuss the change.

Burns and Scapens' (2000) study describes an institutional framework to explore the complex and ongoing relationship between actions and institutions, and demonstrates the importance of organisational routines and institutions in shaping the process of management accounting change. The framework is grounded in the duality of action and institutions, which means that even though institutions shape behaviour, institutions are themselves the outcome of the actions of members of the organisation. Hence, Burns and Scapens (2000) concluded that management accounting change has to be understood in terms of the behaviour of individuals and groups within the organisations. They also found that it is important to recognise the role of power in processes of change because power (such as hierarchical power and the power of a strong individual personality) can be used to introduce new management accounting systems. However, they add that power relations between individuals in an organisation can be mobilised to resist such new management control systems. Chapter Four will provide a more in-depth description of the use of power in processes of change and the interplay between power and institution.

2.4. Management Control Systems in Less Developed Countries (LDCs)

This review will be focused on research on management accounting controls in those countries that can be classified as less developed countries (LDCs). The aims are to evaluate the roles of management accounting control in LDCs and also to examine the influence of environmental conditions in these countries on accounting control. Less developed countries, also known as Third World or developing or emerging economies, are the countries that do not belong to the developed economies such as Japan and most

Western countries (Wallace, 1990; Hopper et al., 2003a). Less developed countries are mostly found in East Europe, Asia, the Caribbean, the Pacific Islands and Africa (see the 2003 World Bank Report, "World Bank List of Economies", to find a list of Developing Countries).

A growing number of articles on accounting practices in LDCs have been published in leading Western accounting journals over the past decade (see Maschmeyer and Ji-Liang, 1990; Wallace, 1990; Gray and Kouhy, 1993; Hoque and Hopper, 1994; Scapens and Ben-Ling, 1995; Jones and Xiao, 1999; Ji, 2000; O'Connor et al., 2004; Sulaiman et al., 2004). Most of these studies are joint research projects that combine knowledge from academics from Western and developing countries. This collaboration is designed to prevent many of the problems that could be faced in these studies, such as linguistic and cultural problems (Abdul-Rahman et al., 1997). By having both "native" and "non-native" on the joint research project, the project will be able to identify unique expressions of culture in an accounting/control system and the role of that system in the culture (Ansari and Bell, 1991).

Even though accounting research in LDCs has increased steadily over the years, very few studies have focused on management accounting issues in organisations in the context of these environments. Some major studies on management accounting in LDCs include Ansari and Bell (1991), Hoque and Hopper (1994), Rezaee and Szendi (1995), Uddin and Hopper (2001), Tsamenyi et al. (2002) and O'Connor et al. (2004): these are empirical studies on management accounting controls in countries such as Pakistan, Ghana and Bangladesh.

Ansari and Bell (1991) conducted a longitudinal field study on organisational controls - including planning, organisation, operational control, rewards or incentives, and budgeting - in a Pakistani family-owned food company during the period from 1967 to 1989. Hoque and Hopper (1994) investigated the operation of management control systems in a large nationalised jute mill in Bangladesh by interviewing 141 managers and public officials to understand how control operated and also to explain the factors influencing the work of system of control. Tsamenyi et al. (2002) investigated the budgeting process in the context of Ghana by collecting information from questionnaires and interviews with forty-eight managers in four large-scale organisations. The authors examined the participation of the managers in the organisations in budget decisions and the use of budget as a planning and control device. Uddin and Hopper (2001) conducted an intensive case study on management accounting including accounting controls in a Bangladeshi privatised soap company. They examined shop-floor controls, operational controls, formal structures, and accounting practices after the company had been privatised. O'Connor et al. (2004) explored the influence of the adoption of "Western" management accounting control practices by China's SOEs: this study used a survey instrument for data collection from 82 Chinese SOEs.

In addition, Abdul-Rahaman et al. (1997) and Hopper et al. (2003a) reviewed the previous literature on different management accounting issues in LDCs. Hopper et al. (2003a) reviewed 57 articles from leading accounting journals from the UK, the USA, Canada, and Australia from the 1970s to 1999. This study evaluated the issues, methodologies, theories, and conclusions raised by previous management accounting research in LDCs. Abdul-Rahaman et al. (1997) reviewed English-language accounting journals over twenty-five years starting from the year 1970. This review examined the

literature on internal reporting and financial decision making, external reporting and accountability, accounting and financial management for specific development projects, and theory development in public sector accounting and financial management.

More recently, organisations in LDCs have increased their use of management accounting control (O'Connor et al., 2004). However, studies on accounting development in LDCs (Rahaman et al., 1997; Jones and Xiao, 1999; Hopper et Al., 2003a, 2003b; O'Connor et al., 2004) have argued that most accounting practices in the LDCs are significantly based on importing theories and techniques that have been developed in the Western world, particularly the UK and USA. The main objectives of these adoptions were to improve decision making and to increase the performance accountability of the LDCs' organisations (see O'Connor et al., 2004). Moreover, Ansari and Bell (1991) argued that the imported theories and techniques have been applied in the LDCs without taking into account specific features of the local environment.

Researchers such as Abdul-Rahman et al. (1997) suggested that generalising accounting systems in the developed and less developed countries is inadequate. Perera (1998) found that LDCs experience some problems in adopting Western accounting systems because of the different characteristics of developed and less developed countries. Wallace (1990) reviewed the literature on accounting in developing countries and described LDCs as having a different structure of business and society from developed countries (e.g. in terms of history, population, society, culture, religion, and economic and political systems), and as a result LDCs would need to develop along different lines. This statement has been supported by Hopper et al. (2003a), who argued that the failure to recognise the differences between developed and less developed countries can cause the imported accounting techniques to be ineffective. Kantor and Roberts (1995) studied

financial reporting practices in selected Arab countries and found differences between these developing nations and the developed nations in terms of the relative emphasis on income measurement. Developed nations consider income determination to be of prime importance since the majority of businesses are privately owned, while in developing countries this is not the case, because government ownership is far more dominant.

The other significant issues concerning management accounting control systems in LDCs (see Scott and Troberg, 1976; Jones and Xiao, 1999; Rahaman and Lawrence, 2001; and Tsamenyi et al., 2002) are: the lack of fully trained accountants; accounting information is not utilised for internal management purposes; there is a lack of legislation relating to accounting and auditing standards and procedures; and accounting information is not available or is available but not in the proper form. Jones and Xiao (1999) argued that the acute shortage of qualified accountants in LDCs has led to questionable, uneconomic, or improper management decisions being made by organisations without proper accounting data and appropriate interpretation. Tsamenyi et al. (2002) also found similar results: they found that there were only minimal attempts made to gather information from the departmental and branch managers during the development of the budget because of the lack of requisite skills among the management accountants to develop financial aspects of the budget on their own.

2.4.1. Formal and Informal Controls in LDCs

Jaworski (1988) conceptualized two broad classes of control, which are: firstly, formal control, consisting of high levels of output and process control; secondly, informal control, including high levels of professional and cultural control. Formal control within an organization includes budgeting, performance measurement, incentive systems and other administrative roles. Informal control mechanisms can be adopted as laws, norms, ethics, etiquette, and customs, which all control and thus define behaviour. Informal

processes are designed to achieve organizational objectives. However, Jaworski et al. (1993) concluded that formal and informal controls can be used at the same time.

Previous studies on MCS in LDCs (such as Hopper and Berry, 1983; Ansari and Bell, 1991; Hoque and Hopper, 1994; Dean, 2001; Tsamenyi et al., 2004b) showed that controls in organizations in LDCs can be achieved either through formal or informal means. As a result, it is important to review the literature on formal and informal controls. This study's aim is consistent with many previous studies that have also discussed formal and informal functional roles in the studied organisations in LDCs.

Sulaiman et al. (2004) found that the use of budgets as a planning, control and performance evaluation tool (to enable managers to make more informed decisions) in selected LDCs such as India, Malaysia and Singapore remains high. To support their study, they reviewed studies from Ghosh and Yoong (1988), Ghosh and Chan (1996), Abdul Rahman et al. (1998), Joshi (2001) and Sulaiman et al. (2002). Ghosh and Chan (1996) found that 97 per cent of the 109 studied companies in Singapore reported the use of budgets to evaluate performance; Ghosh and Yoong (1988) found that 97 per cent of 64 multinational firms and 93 per cent of 110 local firms in Singapore used budgets; Abdul Rahman et al. (1998) reported that 98 per cent of 48 Malaysian enterprises used budgets, and 40 per cent of this 98 per cent used budgets as performance evaluation tools; Joshi (2001) found that all 60 large and medium-sized firms in India used budgets for planning day-to-day operations and cash flows, 93 per cent of the companies used budgets for controlling costs, and 91 per cent of the companies reported that they used budgets for planning their financial position.

Previous management and accounting research in LDCs (such as Hopper and Berry, 1983; Ansari and Bell, 1991; Hoque and Hopper, 1994; Dean, 2001; Tsamenyi et al., 2004b) have demonstrated that culture and social relations are instrumental in the management of the LDCs' organisations. Hence, the studies show that informal control is very important in the Asian and Indonesian context as MCS were formed on the basis of socio-cultural relations. The studies have also revealed that there are complex and turbulent situations in the environment of organisations in LDCs (such as the continuation of using old laws and regulations; and the acceptance of the national and organisational cultures) which force the managers in the LDCs to rely on informal and social controls, since the use of informal controls is more effective than the use of formal controls. Thus, while the studies found that some form of formal management control exists in the LDCs' organisations, in practice the strong influence of culture and social relations in the organisations has thus made formal management controls less relevant.

Ansari and Bell (1991) and Uddin and Hopper (2001) found another important feature of management control in LDCs, which is the fact that family and personal relationships play a strong role in the activities of the companies they surveyed. This family control, which is normal in most of the LDCs, often becomes apparent because the company is owned by family (Hopper et al., 2003a). Studies in family-owned businesses by Ansari and Bell (1991) and Uddin and Hopper (2001) found that accounting and control systems in the companies they studied became the personal fiefdom of the family. To explain this family control of organisations in LDCs, Hopper et al. (2003a) stated:

"Controls become informal and arbitrary if not direct or family control and personal relationship becomes important rather than formalised relationship. Families, friend or clan come first in their decision making, as a consequence of it, formal rules and regulations are often being superseded for meeting societal, familial or friendly demands."

In their study, Ansari and Bell (1991) provided an example of the influence of the family in their case organisations. They found that three brothers held three top management positions in the organisation; executive and lower level positions in the company were filled by members of the extended family; there was reliance on respect to the family “hierarchical” structure in appointing a chairman; and the brothers appointed as controller and treasurer a long-time family friend who lacked any qualifications.

In addition, Ansari and Bell (1991) discovered that the studied organisation did not have internal controls of the type common in the west. There is thus no separation of the controllership function from the treasury function in the organisation. An individual performs multiple tasks, from cash collection, bill payments, bank deposits, up to bookkeeping.

Hoque and Hopper’s (1994) study in a Bangladeshi jute mill, and Alam’s (1997) study in two Bangladeshi state-owned enterprises, put forward similar arguments that the wider social, economic, political and institutional contexts govern the ways management control operates in the studied organisations. Their studies revealed a number of significant factors to assist in understanding how management control operated. First, the organisations operated in competitive and regulated environments; they had little authority over their operational activities, and head office and the sponsoring ministries were prominent in organisational planning and control. Secondly, the accounting system in the mills was mainly a response to external legitimacy. Thirdly, budgeting was not a dominant mode of control in the organisations since the budgeting system was created to comply with head office and state requirements.

Fourthly, the managers used a variety of informal/social control mechanisms to cope with the complexity and uncertainty around the mills.

2.4.2. Factors That Influence Management Control Systems in LDCs

Several factors have been identified as influencing developments in management accounting control systems in LDCs. This section will discuss the influence of these factors on management accounting control practices in LDCs.

Colonial influence is one of the major factors that shape accounting development in LDCs (Perera, 1989; Wallace, 1990). Countries which were once colonies (for example, during the British colonial period) often adopt the accounting systems of their former colonial masters. Thus, Perera (1989) argued that former British colonies in particular have adopted British accounting traditions in order to fulfil the requirement of the British Administrative.

It may be useful to analyse organisations as political systems (Cooper, 1981). The environments in most LDCs are turbulent and organisations in these countries face uncertain environments with respect to markets, resource constraints, operations, politics, industrial relations, state interference and the demands of aid agencies (see Hoque and Hopper, 1994; Jones and Xiao, 1999). These uncertain environments in most LDCs have been identified to have consequences for management control systems. Hoque and Hopper (1994) found that the abovementioned factors rendered extant control systems ineffective in the eyes of organisations' managers.

The People's Republic of China (P.R.C.) is an example of a developing country that has experienced changes in economic and political environments that have implications for management accounting control systems (Jones and Xiao, 1999). Jones and Xiao (1999)

and O'Connor et al. (2004) undertook studies of the development of management accounting in China. These studies analysed the background to the adoption of Western management techniques in some Chinese organisations. In the year 1979, the Chinese government began to implement its open door policy, which enabled the importation and adoption of Western management accounting techniques. A reduction in government intervention (e.g. because of privatisation) and an increase in foreign investment are examples of economic transition in China. These bring freedom for enterprises to adopt Western management techniques. Hence, many enterprises in developing countries need to develop new management accounting practices from Western countries and loosen their centralised controls in order to meet the needs of economic reform and international trade (Ji, 2000; Hopper et al., 2003a).

O'Connor et al. (2004) also argued that the change in accounting control practices in China was a response to an increasingly competitive environment, and also influenced by institutional factors such as joint venture experience and stock exchange listing. Jones and Xiao (1999) and O'Connor et al. (2004) also added that the main objectives of the transformations in the country's management control systems were to improve decision making and to increase performance accountability. Perera (1989) argued that the majority of multinational companies which operate in developing countries that use Western accounting systems in their daily activities are only concerned with how to make money and have little concern for the local needs of the host countries.

Hopper et al. (2003a, 2003b) also argued that it is more effective for organisations in LDCs to import Western methods due to the lack of resources to design management accounting systems consistent with indigenous cultural or economic principles. International accounting firms, professional bodies (e.g. the International Accounting

Standards Committee / IASC), and educational institutions have also been effective vehicles for transferring Western-style accounting systems to the LDCs (Perera, 1989; Hopper et al., 2003b). For example, Ji (2000) noted that immediately after China introduced its open door policy, the government in Beijing sent a number of accounting scholars and students to industrial countries to learn advanced accounting techniques and theory. This occurred because education systems in China are still incapable of generating enough fully-trained accountants, even though management accounting is widely taught at all levels of higher education and further education and is a main subject in professional accounting examinations (Jones and Xiao, 1999).

However, in contrast to the management practices in developed countries, organisations in LDCs experience greater informal procedures in their day-to-day management activities. Decisions relating to recruitment, rewards, financing and strategic issues are often made in cognizance of social and cultural factors. For example, Ansari and Bell (1991) and Uddin and Hopper (2001) found that management practices in LDCs were based on the culture and belief of the individuals in the organisations. Hence, in their study, Ansari and Bell (1991) found the appointments to management positions in the studied company were not based on qualifications but more on a cultural preference for trust: this preference for trust was the basis for the company appointing a long-time friend of the owner of the company as controller and treasurer. Furthermore, this cultural preference for trust also leads to the lack of separation of duties between control functions and treasury.

In addition, Ansari and Bell (1991) added that the belief of the participants in separating their business risks in other countries because of their country's condition, and their willingness to increase their family's status and privilege as a respectable, industrial

family, influenced the strategic planning decisions to build a packaging material plant and acquire an ice cream plant, and also the decision for geographical expansion to the UAE. Perera (1989) explained the reason for the use of informal procedures in day-to-day management in LDCs another way: he stated that business managers in many developing countries are not likely to have a formal education and training in management, which means that they are not likely to be professionals.

2.5. Summary of Chapter

One of the fundamental findings of this chapter is that it is necessary for researchers who study management control system change in an organisation to recognise a number of environmental / external factors (such as: economic, social and political climate, industrial relations, competition, and government regulation) and internal factors (such as individual behaviour and organisational power relations) that may affect the management control system in an organisation. In recent years, many organisations have experienced significant change in their organisational designs, competitive environments, and information technologies. This period has also seen the adoption of a corporate style of management among universities, as one example of public sector institutions.

The abovementioned literature further concluded that there are differences of management control systems between the developing nations and the developed nations. For example, in organisations in LDCs, culture and social relations are instrumental in the organisations' management. The evidence from this literature review also found that management accounting in general, and management accounting control systems in particular, within organisations in LDCs have not received much attention from academics. The majority of the literature on accounting has been designed to deal with the problems of Western countries and some of the studies are not relevant to the

conditions and problems of developing countries because of the unique environmental conditions in these countries (Perera, 1989).

In addition, the literature study by Abdul-Rahaman et al. (1997) found that in the area of management accounting in developing countries, where a lot of work has been done, empirical studies are still lacking. They argued that the reason for this lack of empirical studies is that most researchers are often non-residents of the countries and thus face the linguistic and cultural problems which have become notorious in social science research into developing countries. On the other hand, a suggestion could be made from the review of the literature above, that to improve the quality of accounting practices in developing countries, the countries' accounting systems would require research studies relevant to the local needs and specific features of the environments in the individual countries, including its historical, economic, socio-cultural and political environment. Further summary about some previous studies on management and accounting practices in LDCs organisations can be found in Appendix 2.1. at the end of this thesis.

Finally, the literature review above revealed that the majority of authors have studied the MCS in isolation. This thesis will address this gap by studying the MCS as part of an interrelated control system. The next chapter provides a further review of previous literature that describes management control systems in the public sector.

CHAPTER THREE
MANAGEMENT CONTROL SYSTEMS (MCS)
IN PUBLIC SECTOR ORGANISATIONS:
A REVIEW OF RELATED LITERATURE

3.1. Introduction

This chapter is the second part of the literature review. It discusses literature related to management control systems (MCS) in public sector organisations. This review is important as the foundation to identifying and understanding MCS in the public sector in general and in the higher education sector in particular in order to study the universities in this study.

This chapter is divided into four parts. After this introductory section, the second part describes details of the activity of MCS in the public sector, including an explanation of the use of line-item budgeting and activity-based budgeting in the public sector. The two budgeting systems were chosen because of their existence in the research site. The third section provides details of a literature review of the studies and published articles in higher education institutions research. This section includes a discussion of the factors that influence universities' day-to-day activities, a discussion of university reforms in many countries, how universities practise their MCS, and also the relationship between the systems, and organisational power relations. The final part of this chapter provides a summary of the chapter and identifies the justification for the thesis.

3.2. Management Controls in Public Sector

3.2.1. External Environment of Public Sector

There are many studies on the public sector that have discussed organisational control either in developed countries or less developed countries. Researchers such as Smith (1993), Evans and Bellamy (1995), and Llewellyn and Tappin (2003) have discussed management control systems in public sector organisations in developed countries. Smith (1993) gave an outline of the performance review process in the United Kingdom's National Health Service. Llewellyn and Tappin (2003) explored the growth of strategic planning in a particular area of the public sector – the national parks. Evans and Bellamy (1995) discussed performance evaluation in the Australian public sector.

Studies on public sector accounting in developing countries have been published by Dean and Pugh (1989), Abdul-Rahaman et al. (1997), and Grindle (1997). Dean and Pugh (1989) explored the use of budgeting systems in governmental organisations in five developing countries. Abdul-Rahaman et al. (1997) reviewed the literature published in English-language journals over the previous twenty-five years. Grindle (1997) explored evidence from 29 organisations studied in a six-country comparative research project.

Other studies (Hirshhorn, 1989; Collier, 2001) have discussed differences between public and private sector management and concluded that both serve different sets of stakeholders, leading to a conflict of interests in both sectors. Public sector institutions have a multiplicity of stakeholders, which are resource providers (for example government), public interest groups, customers, and the clients of the organisations. The private sector serves customers and shareholders; public sector managers need to consider the demands of their users, such as society as taxpayers. The overall aim of financial control in the public sector institutions is to ensure that the government obtains

Parliamentary authority for what it wishes to spend and that the government only spends money on objectives approved by the Parliament. In the public sector, decisions are made for political and not financial reasons. Tests of management competence are also for political reasons, not financial. From the view of budget characteristics, budgets in the public sector are published to be critiqued and discussed by society, while private sector budgets are closed to the public because they are company secrets.

In the case of a university as a part of the public sector, Coy and Part (1998) argued that a university's published financial statements or annual reports are used in different ways by its stakeholders. They provide examples of this by saying that students, including their parents or sponsors, may use the information to argue about the fairness of tuition fees charged in relation to operating costs, while academics may use this information to see how resources are allocated between faculties to enable them to secure their interests (for example, job security). Through adherence to formal managerial strategies, the public sector has become less driven by the individual aspirations of professionals and also, potentially, more rigid and standardised (Llewellyn and Tappin, 2003).

Smith (1993) identified four particular problems in public sector and not-for-profit organisations' control systems that were not found in the private sector, which are: firstly, the difficulty of securing a consensus as to what the output and objectives of such an organisation should be; secondly, the difficulty of measuring such output and the eventual outcome of public sector intervention; thirdly, the difficulty of interpreting any output and outcome measures that can be developed; fourthly, the difficulty of persuading citizens to take any interest in performance measures.

Public sector organisations perform poorly in many countries (Grindle, 1997). For the last decade, the global trend seems to be for public sector reforms, which have occurred in several countries. Several governments (for UK experiences, see Grindle, 1997; Cooper, 2004) have adjusted public sector institutions that have suffered a “legitimacy” crisis. Within management research, the question of efficiency and effectiveness in public enterprises has formed the focus of attention for many years. Hence, as happened in the private and not-for-profit sectors, quality and accountability have become focal issues in the public sector.

There are some background reasons as to why public sector organisations perform poorly in many developing countries, which are poverty, economic crisis, corruption, and political instability, and these afflict some countries so much that basic conditions of security and order have disappeared; states have literally collapsed and, along with them, the organisations charged with carrying out routine and development-oriented functions (Grindle, 1997). Gujarathi and Dean (1993) adds that public sector management in developing countries also faces difficulties in recruiting and retraining qualified accountants. For example, they argue that almost all accounting and financial management positions in the public sector in Papua New Guinea were filled by non-graduate accountants. Gujarathi and Dean (1993) also found reasons for the acute shortage of qualified government accountants, which are: salary differential between private and public sectors, inadequacy of training personnel and facilities, poor job environment and lack of opportunities for growth.

Llewellyn and Tappin (2003) in their research found that politicians desire more control over the professionals that dominate public services whilst wanting to make them more responsible for outcomes. However, public services must now provide transparency in

order to secure on-going funding from government bodies and to manage their legitimacy crisis (Coy and Pratt, 1998; Llewellyn and Tappin, 2003).

Moreover, part of the reforms, other studies (for example: Hood, 1995) have argued that across the world, public-private partnerships are now seen as inevitable and are becoming the “new global paradigm” in order to allow for increasing investment in public services. An example of public sector reform is the experience of Britain under the premiership of Margaret Thatcher in the early 1980s. An example of a public-private partnership was given by Llewellyn and Tappin (2003), who discussed private sector sponsorship with the establishment of named company Chairs in universities. Belgium also experienced a situation where many of the Belgian non-profit and public sector organisations have encountered a number of financial accounting changes over the last ten years (Christiaens, 2000). Public sector organisations in Belgium, such as hospitals, local government, health service insurance, pension funds, universities, and education/schools, have reformed their traditional cash accounting towards business-like accrual accounting. These reform programmes in developing countries are normally a pre-condition of donor institutions such as the World Bank (WB) and the International Monetary Fund (IMF) for funding in the countries (Hoque and Hopper, 1994; Uddin and Hopper, 2003; Tsamenyi et al., 2003).

3.2.2. Budgeting Systems in Public Sector

This sub-section examines two popular budgeting systems, which are line-item and activity-based budgeting (see Anthony and Young, 2003). These two systems were chosen based on their existence in the research sites.

3.2.2.1. Line-Item Budgeting

Traditionally, non-profit and public sector organisations, including higher education institutions, have used line-item budgets to allocate resources (see Dean and Pugh, 1989; Perrin, 1989; Drury, 1996). Dean and Pugh's (1989) book discusses government budgeting in five developing countries - India, Malaysia, Philippines, Singapore and Sri Lanka - and found that the first three countries used line-item budgeting years ago in their government budgeting systems. Dean and Pugh (1989) found that the use of line-item budgeting in less developed countries reflected some of these characteristics: stressing control rather than planned development, and money outlay rather than objectives; and it was expressed in terms of the things on which money was spent. They further argue that many governments or organisations use line-item budgets as an approach due to its simplicity and because it is less time consuming than the other available methods.

Perrin (1989) and Anthony and Young (2003) suggested that line-item budgeting is not descriptive because every budget simply provides one line of information for each kind of income and expenditure. This system occurs in an organisation when resources are allocated according to expenses elements such as categories of consumables (e.g. office supplies) and other running expenses (e.g. wages, fringe benefits, rent, travel expenses, and telephone expenses).⁴ Budget planning starts by using the organisation's historical costs. The focus of the budgeting process is on the anticipated changes to last year's figures because of inflation and the request for those new or expanded activities that the managers seek to pursue. In other words, Innes and Mitchell (1995) explained that line-item budgeting requires only small increases or decreases in the financial resources allocated. When line-item budgets are compared with the actual expenditures, line-item

⁴ For further explanation on line item budgeting, see Henley et al. (1989), Drury (1996), and Anthony and Young (2003).

budgets provide a basis for comparing whether or not the authorised budgeted expenditure has been exceeded or whether under-spending has occurred. Note that data for the current year and for the previous year are included to indicate how the proposed budget differs from current spending patterns (Drury, 1996).

However, many studies (such as: Dean and Pugh, 1989; Perrin, 1989; Innes and Mitchell, 1995; Anthony and Young, 2003) pointed to the weaknesses of the traditional budgeting systems including line-item budgeting. Dean and Pugh (1989) argued that line-item budgeting failed to answer questions such as: (1) What are the government's objectives for each subdivision of the budget? (2) How do different parts of the budget relate to each other and to the fulfilment of the government objectives? (3) How do the budgeted figures relate to longer-term plans? (4) What is government expecting to achieve with the budgeted money? (5) How does cost relate to expected achievement?

Hence, such line-item budgets fail to identify the costs of activities and the programmes to be implemented. In addition, compliance with line-item budgets provides no assurance that resources are used wisely, effectively or efficiently in financing the various activities in a non-profit organisation (Drury, 1996). Similarly, Anthony and Young (2003) criticise the use of line-item budgeting since it is particularly troublesome when top management seeks to identify inefficiencies and waste. Moreover, this budgeting system can encourage the practice of spending up to the budget in the last few months, to prevent future cuts.

3.2.2.2. Activity-Based Budgeting

Governments in many countries, including developing countries, are now trying to ascertain "what" and "how well" their public organizations and programmes are doing

in providing services and products to their citizens (Dean and Pugh, 1989; Mardiasmo, 2003). Answering these questions will permit decision makers to make better choices. As has been discussed above, the line-item budgeting systems fail to do this. Hence, to answer the questions, governments are developing and implementing activity-based budgeting (ABB) for their units as one way of moving away from such a system (Innes and Mitchell, 1995; Babbini, 1999). An example of the use of ABB is seen in a phenomenon in the Indonesian public sector, which experiences a high demand for accountability (Mardiasmo, 2003). This demand was indicated by the programme of privatising State-Owned Enterprises (BUMN), the conferral of autonomy by the Government upon regions in Indonesia, and the change of status of Public Universities into State-Owned Legal Boards (BHMN).

Activity-based budgeting is a technique that links the budgeting process to organisational strategy and develops a budget based on activities and process, particularly for those involved in creating value in the product or for the customer, rather than in functional areas (Connolly and Ashworth, 1994; McLemore, 1997; Babbini, 1999). Anthony and Young (2003) argued that the system focuses on programmes and programme elements that represent the activities for which the funds are to be spent. It starts by analysing the products or services to be produced, what activities are required to produce these products or services, and what resources need to be budgeted to perform these activities (Innes and Mitchell, 1995). In other words, McLemore (1997) argued that ABB focuses more on results (i.e. output) than on input (i.e. resources). Compared with traditional budgeting, including line-item budgeting, Babbini (1999) found that senior management have to face the rather more difficult task of making resource prioritisation decisions based on customer demand rather than starting with the existing budget to build a new budget.

With the characteristics of ABB that have been explained above, many studies (such as Connolly and Ashworth, 1994; Anthony and Young, 2003) have revealed many benefits of the system, such as: firstly, effective implementation of the organisation's business vision, strategy, objectives and plans which permit senior management to match spending with measures of each activity's planned outputs; secondly, effective communication of objectives both 'top down' and 'bottom up' throughout the organisation; thirdly, the optimum allocation of scarce resources across the business consistent with the agreed objectives and plans; fourthly, a focus on continuous improvement initiatives and on the things the organisation must do well if it is to be successful in achieving its future vision; and finally, a high degree of management commitment to achieve or manage against the agreed budget since the system permits a decision maker to judge the appropriate amount of resources for each activity.

McLemore (1997) argued that the above advantages can be achieved by adopting the activity-based budgeting tools along with implementing steps such as training and educating employees, analysing strategy, establishing planning guidelines, forecasting workload, proposing interdepartmental improvement, proposing activity improvement, selecting improvement options, and finalising the budget.

3.3. Research in the Higher Education Sector

3.3.1. External Environment of Universities in Less Developed Countries

Over the past decade in particular, a veritable wave of external environmental shocks have been impacting on universities' strategic focus, finance, and modus operandi in developed or developing countries (Lee, 2001; Mohamedbhai, 2002; Parker, 2002). Changes in the management control of public sector organisations for the last two

decades have also impacted on the activities of universities. Governments, especially in developing countries, are realising that they cannot finance the existing demand for higher education and have reduced their funding levels to the universities.

Mohamedbhai (2002) argued that the reluctance of governments to fund higher education was also influenced by the stand taken by some donor agencies that developing countries derive maximum economic benefits by channelling their funds into the primary and secondary education sectors rather than the higher education sector, leaving the latter eventually to fend for itself. He added that the economic situation in most less developed countries is such that the governments are unable to provide the additional funding required to further expand the public tertiary education sector. Both Mohamedbhai (2002) and Parker (2002) argued that universities in many Western countries have undergone a change in their strategic focus, core values and modus operandi as corporate entities that practise business principles such as quality management, quality and promoting revenue-generation by seizing the opportunity to capture the market in developing countries. Mohamedbhai (2002) further added that there are two main methods used to achieve this market presence, which are firstly, delivery through their physical presence in the host country (e.g. by establishing a local branch or a satellite campus or by using a local partner), and secondly, delivery of the course with the provider remaining in their own (foreign) country to the students in the developing country (e.g. international distance education and e-learning).

3.3.2. Reforms in Higher Education Institutions

Reform in higher education institutions has become an important issue and has been taking place worldwide (see Chapter One). There are several studies (such as: Watts, 1996; Meek and Wood, 1998; Aijing, 1999; Crebert, 2000; Christiaens, 2001; Lee, 2001; Parker, 2002; Ma, 2003) that have discussed reforms in higher education

institutions. Christiaens (2001) examined an important accounting reform in Belgium universities mainly from a technical accounting practice point of view. Lee (2001) discussed the impacts of the recent higher education reforms on universities and the academic profession in Hong Kong and Singapore and the ways that the future development of the university sector is affected by these reforms and policy changes. Parker (2002) critically examined some of the dimensions of the major changes in scope of activities, structures, processes and relationships in Western universities, reflecting on the spectrum of environmental forces and internal resource pressures that have begun to transform many aspects of university governance core activities, stakeholder relationships and academic work. Ma (2003) discussed reform in Chinese universities, such as change of the institutions to become private institutions and the merger of institutions. In his study, Ma (2003) stated that many Chinese higher education researchers have observed that the Chinese higher education system has changed a great deal and many changes are shaped and reshaped by market needs.

Research concerning management and accounting systems change as an impact of university reforms within the Australian universities has been an important topic for the past few decades. There are many studies (such as: Watts, 1996; Meek and Wood, 1998; Crebert, 2000) in Western published journals that describe management and accounting practices in Australian universities after the Dawkins reforms in 1988. Meek and Wood (1998) stated that the Australian university reforms occurred as a result of criticisms about the management and governance in Australian higher education that focussed on the perceived inefficiencies of institutional structures, the apparent slow and cumbersome decision-making processes, and the lack of managerial competencies.

Watts (1996) added to the above explanation that major changes in the Australian higher education context were preceded by a period of crisis that began in the 1980s and followed by mergers that were designed to increase efficiency. The literature review by Crebert (2000) concluded that reforms of the sector were also influenced by the government policy in 1981-1991 that forced the Australian universities to adopt the public service model that was characterised by the principles of economic rationalism, performance measurement, management training, programme evaluation, and public accountability.⁵ Watts' (1996) arguments⁶ further contended that these government initiatives increased public accountability and reporting, together with the requirement that universities developed mission statements, strategic plans, equity plans, resource management plans, capital management plans and the strategic management of university resources and internally developed budgeting (p.56).

Meek and Wood (1998) and Crebert (2000) further argued that since the Dawkins reforms, the universities' administration has moved towards highly centralised administrative structures. The structures are strongly hierarchical, allowing for little input from the lower levels to policy formulation or planning processes, even at the level of action planning. Further explanation of management and accounting system changes as an impact of reforms can be obtained from the explanation below.

Christiaens (2001) noted reforms in institutions from cash accounting to accrual accounting. The author presented a general view of the empirical outcomes of the accounting reform from cash accounting to accrual accounting and its merits focusing on eight universities and their annual accounts. The focus is on the concept of the reformed academic accounting legislation and on the empirical outcomes of

⁵ For a more in-depth explanation, see p.73 of the Crebert (2000) study.

⁶ Based on the studies of Dawkins (1987) and Gallagher (1994)

implementation based on an examination of annual accounts supplemented with interviews. An important issue is the mixing up of the traditional budgetary accounting system with the new financial accounting system, which is primarily transferred from business accounting. The empirical examination reveals that there are a lot of accounting problems in the area of the reformed regulations as well as in the accounting practices and that the comparability of the annual reporting is not guaranteed even after years of experience. Christiaens (2001) further revealed that the compliance with reformed regulations in the eight studied universities is rather poor. He found some contradictions with the accounting reforms. He argued that this finding has a lot to do with the lack of a conceptual accounting framework behind the reforms.

Aijing (1999) in his study argued that when the Chinese universities were still operating under the old system (before being reformed), all of the higher education institutions in the nation were controlled and managed by the government. All of the financial expenditure for higher education came from the government, making a very heavy financial demand on the government, which was usually unable to meet the needs of the individual universities. There were frequently contradictions between the government's financial supply and the universities' demand.

According to Ma (2003), the practice of merging universities led to some structural change within universities. He found that mergers brought change in the organisational structure from a two-level model (university and department) to a three-level model (university-college-department). There are now faculties or divisions, which mainly take care of some academic activities, but have no administrative power. Another change to the organisational structure is that the university administration has "macro-level" control, such as setting up the policies and long-term developmental objectives of

the university, while the colleges or schools perform the function of real academic administration. After the internal structural change, most of the universities are now in the process of curriculum reform to provide students with general education rather than specialised education, and such programmes are already under experimentation in some universities.

In the face of financial stringency, the limited resources provided by the governments in some countries forced the universities to become more prudent in spending public money and to avoid resource wastage (Lee, 2001; Parker, 2002). An example of a limited resource from government has been shown by Parker (2002), who stated that universities in Australia now earn up to 50% of their total revenue from non-government sources. As a result, Lee (2001) found that the limited resources brought the researched universities to the idea of corporate enterprises in the business sector, which is entrepreneurialism. The universities have to search for other sources of income apart from government grants, such as social donations, corporate and industrial sponsorships, spin-off company profits, and tuitions fees from market-oriented programmes at sub-degree, undergraduate and postgraduate levels including international student recruitment (Lee, 2001; Parker, 2002).

Lee (2001) also found that university education reforms resulted in the managerial class in universities now being responsible for allocating financial resources by top-slicing and on-line budget approaches and for taking charge of quality reviews and staff appraisals, while faculty deans and department heads now have more discretionary powers to make decisions with regard to financial and personnel matters. He added that management by result and performance is now the norm for universities in most countries. The managerialisation of the universities in his study gives rise to the fact that

everyone is held responsible for his or her achievement and outcome in terms of teaching, research and services. Rules and regulations are institutionalised to ensure that academics are working in line with the goals of transforming their universities into world-class higher education institutions.

The same statement has also been made by Parker (2002) in his study by concluding that in the universities, decision making has become more driven by senior executive command, strategic initiatives have been imposed upon faculties and divisions, and despite rhetoric to the contrary, revenue generation has been derived from school-level activity while a large proportion of resulting revenue inflows have been diverted to strategies, subunits and projects directly controlled by the senior executive. As a result, these executive leaders often become overwhelmed by their workload and disconnected from the academic and administrative community they supposedly lead.

Parker (2002) stated two different kinds of university management, different as the result of environmental changes. The first management style is traditional university management by layers of academic committees, which have problematical features such as slow decision making and prevarication, unclear lines of responsibility and accountability, resistance to change, and protection of strategic opportunities. The second is the transformation of the traditional system to become a professionalised managerial system of university governance, imported from the private sector, offering the prospect of a faster, more flexible decision-making process that could break through inherited and decaying university power structures and resource abuses. In the area of staff remuneration, Lee (2001) found that university reform brought a new remuneration system in the universities, consisting of a basic salary and other components that relate to performance, responsibilities and market value. For basic pay, there are no automatic

annual increments, which are instead converted to performance-based increases. In addition, the universities also introduced a more rigorous system of performance assessment and evaluation.

3.3.3. Research in Management and Accounting in Universities

Research of management and accounting systems within the universities has been an important topic for the past decade, as is shown by the growing number of studies in the topic area. For example, studies from Salancik and Pfeffer (1974, 1977), Pfeffer and Salancik (1974), Pfeffer and Moore (1980), Cornway et al. (1994), Evans and Bellamy (1995), Watts (1996), Goodwin and Gouw (1997), Coy and Pratt (1998), Crebert (2000), Thomas (2000), Angluin and Scapens (2000), and Cullen et al. (2003) all provide several explanations of the management and accounting practices in the universities in some developed / Western countries (e.g. Australia, New Zealand, United Kingdom, and United States).⁷

A host of papers (for example see Evans and Bellamy, 1995; Meek and Wood, 1998; Crebert, 2000) have been written investigating management and accounting practice, primarily in Australian universities. Meek and Wood (1998) and Crebert (2000) discussed the impact of the university reforms of 1988 on the activities of Australian universities. Meek and Wood (1998) conducted a survey of the governance and management of all 36 Australian publicly-funded universities to determine what are considered to be the main issues and problems regarding the universities' operation after the reforms from the perspective of senior managers.

⁷ Pfeffer and Salancik (1974); Salancik and Pfeffer (1974, 1977) and Pfeffer and Moore (1980) used quantitative research to discuss the topic, while Coy and Pratt (1998) used a case study.

As explained by Meek and Wood (1998), in accordance with the regulations before the reforms took place, plans for the higher education sector were carried about by a number of federal and state commissions and boards. After the reforms, each Australian university has a new governing body that has more than 20 members⁸ and which has the legal powers and responsibility to manage the institution. Deans of faculty in particular are now considered very much a part of management and are usually appointed rather than elected (Meek and Wood, 1998).

Coy and Pratt (1998) explored the political influences on annual reporting by the universities in New Zealand in the context of developing accountability. They report in their study that the universities have modified existing structures in order to satisfy these accountability and governance concerns to secure government funding and also to ensure that they continue to receive community support.

Meek and Wood (1998) found that the majority of executive officers believe that academic tenure prevents the university from setting new directions, whilst deans are about equally divided and most of the Heads of Department responded that tenure does little to constrain the setting of new directions. Other researchers (such as: Cornway et al., 1994; Nelson et al., 1998; Crebert, 2000) have investigated the use of strategic planning in a higher education context. Cornway et al. (1994) conducted exploratory research to discover the extent to which the new universities and colleges in the UK are aware of market orientation in their strategic planning processes. This study found that almost half of the higher education institutions implied a customer orientation in their

⁸ Meek and Wood (1998) considered the governing body, which is considerably larger than boards of directors of corporations with budgets of comparable size. The members of the governing body are: members nominated by government (usually in a minority); members elected by (i) a graduate body such as convocation, (ii) staff, academic and non academic, (iii) students, (iv) one or other or both Houses of Parliament; co-opted/elected by council/senate/board of Governors itself; and ex officio (for example, Vice-Chancellor, heads of selected government departments, etc).

planning. As a result, they concluded that many higher education institutions in the UK are not adequately prepared to respond to the increasingly competitive force in their environment. Hence, the authors of the study advised that the institutions would have successful strategies if they could understand the needs and wants of customers in the market in order to deliver the right goods and services effectively.

Cullen, et al. (2003) explore the potential use of the balance scorecard in higher education institutions. They construct a balance scorecard for a faculty of management and business at a mid-ranking UK university. They argued that even though the balance scorecard has a successful application within private and public sector organisations, it has rarely been applied in the university sector context.

Crebert (2000, see pp.73-76) conducted a small pilot study in Griffith University (Australia) to identify the academic view of the university's plans that have been implemented since the university reforms. Some significant findings emerged from his study, which states that the university's approach⁹ affected the articulation of plans and may have contributed to the reality that not all staff in the university were aware of the purpose of strategic planning in the university and hence, the strategic plans had little effect on aligning the strategic direction of the school. Moreover, Crebert (2000) also found that the heads of schools felt excluded from the production of the university's vision and mission. He found that it is important for the plans at all levels to be cohesive, and communicated or articulated to make the plans effective.

Watts (1996) examined some of the changes in budgetary practices in Australian universities since the introduction of the university reforms in 1988. Coy and Pratt

⁹ Schools in the university were required to provide their business plans before they had developed their strategic plans, because of time constraints. In some cases, the business plans preceded both school and faculty strategic plans.

(1998) used a case study from a university to provide an explanation of the relationship between political power and accountability in New Zealand's universities. Pfeffer and Salancik (1974); Salancik and Pfeffer (1974) studied the power of subunits in a large, Midwestern state university in the USA and described the university's decision making as a political process and explored the use of power in the university's organisational decision making.

Pfeffer and Salancik (1974); Salancik and Pfeffer (1974) found that subunits of a university have significant power over the university as a central administration to affect the organisational decision making and, particularly, resource allocations within organisations. This argument, that the subunits most able to cope with an organisation's critical problems and uncertainties acquire power, is supported by Salancik and Pfeffer (1977). They also added that power is used by the ones who have it to enhance their own survival through control of scarce critical resources, placement of allies in key positions, and the definition of organisational problems and policies (p.4).

Pfeffer and Moore (1980) examined the determinants of power and budget allocations on two campuses of a large, American state university system and replicated the findings of Pfeffer and Salancik (1974). Thomas (2000) used experience from two UK universities to explore the implication of the use of formula-based systems for the power and influence of strong forces (e.g. key senior managers) within the institutions. His study demonstrates that micro-political activity and sub-unit power remain significant influences within devolved formula-based systems.

Salancik and Pfeffer (1974, 1977), Pfeffer and Moore (1980) and Coy and Pratt (1998) hypothesized that the power of the departments in their studied universities is highly

correlated with the department's ability to provide two important resources, which are grants and contracts and student enrolment, that are critically needed by the institution. Pfeffer and Moore (1980) further argued that another source of power is national visibility and research reputation.¹⁰ With national prestige and reputation, the subunits have an ability to obtain funds from outside grants and contracts, while the subunits with heavy student demands for courses would be able to obtain funds from these students.

The studies above agree that the powers the units have are the main determinants of a unit's ability to attract or resist the institution's decisions. For example, Pfeffer and Salancik (1974); Salancik and Pfeffer (1974) found that departmental power was related to budget allocations in a university. Salancik and Pfeffer (1974) argued that in pursuit of the relationship between power and resource allocation, subunit power accrues to those departments that are most instrumental in bringing in or providing resources which are highly valued by the total organisation.

Pfeffer and Moore (1980) examined the determinants of power and budget allocations on two campuses of a large state university system. They explained the importance of these resources - outside grants, contracts and student enrolment - for most state universities by noting that while grants and contracts have been used to support graduation educate and research programmes as well as for the overheads generated, student enrolment is an important resource because the university budget allocations are based at least partly on student enrolment. Pfeffer and Salancik (1974) concluded that the utilisation of subunit power in organisational decision making has been limited by internal interdependence among subunits and external constraints and contingencies.

¹⁰ Salancik and Pfeffer (1974) found no effect of the national prestige of departments on power.

This argument has also been made by Salancik and Pfeffer (1977), that power is shared in an organisation because no one controls all of the desired activities in an organisation. Pfeffer and Salancik (1974) further argued that public universities have more external constraints than private universities and the newer or less prestigious universities have less power relative to external agencies (for example, government agencies as legislatures).

3.4. Chapter Summary

The literature review above found that public sector managers perceive little participation from the management in the budgeting process. Government has a greater influence in this respect through participation in the process. In the public sector in LDCs, budgets are enforced by headquarters and the state. The literature revealed that reforms in the public sector have moved the public sector institutions in many countries from line-item budgeting to activity-based budgeting. The literature also found that ABB has more advantages compared to the line-item budgeting.

The chapter looked at previous accounting research in many Western and LDC industries and the review of the literature noted that academics have not paid much attention to the management and accounting practices in higher education institutions in Western or LDC environments: there are only a small number of published papers in this field. As presented in Table 3.1, below, most of the studies were focused on Western influenced higher education institutions, such as in the United Kingdom, USA, Australia and New Zealand. The majority of them were conducted using quantitative research approaches such as a survey, which allows for the findings to be generalised. However, this approach does not permit an in-depth understanding of how and why particular issues exist. In contrast, unlike the majority of the studies that have been

reported in this section, this thesis uses qualitative studies (e.g. case study) to investigate how and why the MCS were designed and operated in the two studied universities and also to get a better understanding of the issues.

Author	Research Method	Country of Study
Salancik and Pfeffer (1974, 1977)	Quantitative study	USA
Pfeffer and Salancik (1974)	Quantitative study	USA
Pfeffer and Moore (1980)	Quantitative study	USA
Evans and Bellamy (1995)	Qualitative study	Australia
Watts (1996)	Qualitative study	Australia
Goodwin and Gouw (1997)	Quantitative study	New Zealand
Covalevski and Dirsmith (1988a)	Qualitative Study	USA
Coy and Pratt (1998)	Qualitative study	New Zealand
Meek and Wood (1998)	Quantitative study	Australia
Crebert (2000)	Quantitative study	Australia
Thomas (2000)	Qualitative study	UK
Angluin and Scapens (2000)	Quantitative study	UK

Table 3.1: Published papers in management and accounting practices in higher education institutions

As has been stated before, while most of the previous studies in this area were set in Australia, the UK, the USA or New Zealand, few were found to be conducted in less developed countries, especially Indonesia. The majority of the studies on management control systems in LDCs were also only focused on state-owned enterprises, family-owned businesses, and privatised companies (see Ansari and Bell, 1991; Hoque and Hopper, 1994; Hoque and Hopper, 1997; Alam, 1997; Rademakers, 1998; Uddin and Hopper, 2001; Tsamenyi et al., 2002; Hopper et al., 2003a, 2003b; Uddin and Hopper, 2003). Hence, this study will contribute to the relatively small number of studies on the development of management accounting control systems in less developed countries, especially in higher education institutions in these countries. Further summary about some previous studies on management and accounting practices in higher education institutions can be found in Appendix 3.1. at the end of this thesis.

The next chapter provides an explanation of the theoretical framework used in this thesis to guide data collection and make sense of the research findings.

CHAPTER FOUR:

THEORETICAL FRAMEWORK

4.1. Introduction

Chapter Three has provided the reader with a description of MCS in the public sector and more specifically the higher education sectors. This chapter discuss the theoretical framework used in this study. A theoretical framework is very important as a guide for research. This study draws on new institutional sociology / NIS (Powell and DiMaggio, 1991) as a theoretical framework to explain management accounting change in the two Indonesian autonomous universities. NIS has been adopted in prior accounting studies (Covaleski and Dirsmith, 1988; Oliver, 1991; Carpenter and Feroz, 2001; Sherrer and Lee, 2002).

The aim of this chapter is to present the main theoretical assumptions underlying the study and the justifications for the choice of the theoretical framework. Following this introduction to the chapter, there are three further sections. The first section provides the rationale for the choice of institutional theory as the framework for this study. It highlights the differences between two of the major strands of thinking about organisations, which are contingency theory and institutional theory (Geiger and Ittner, 1996). The second section introduces the theory used in this study, which is new institutional sociology (NIS). This section includes a discussion about institutional isomorphism, which consists of coercive, mimetic and normative isomorphism.

It is followed by a discussion of the shortcomings of NIS. The discussion in this section highlights two issues, which are firstly, the interplay between institutional forces and power and actors' interest-based behaviour, and secondly, the interplay between new institutional and market forces. The next section introduces the use of idioms of phrase

in this study in order to drive the explanations of this study. The sixth section introduces the use of institutional theory in accounting research in general and management accounting control research in particular. This section gives a brief review of earlier accounting studies that adopted New Institutional Sociology (NIS). The final section provides a conclusion to the chapter.

4.2. Justification for Using Institutional Theory

Two of the major strands of thinking about organisations are contingency theory and institutional theory (Geiger and Ittner, 1996). Geiger and Ittner (1996) claim that contingency and institutional theories can explain the design and use of cost accounting systems in government agencies.

A central principle underlying contingency theory is that there is no best type of organisational practice (including systems of management control) that can be effective for all organisations, which contrasts with other research domains within the field of management that have been devoted to uncovering organising principles that apply universally to all types of organisation (Otley, 1980; Alam, 1997; Young et al., 2001). Otley (1980, 1999) and Alam (1997), in the theoretical frameworks in their studies, contend that the design of an appropriate accounting and control system, in the view of contingency theory, is dependent on the specific circumstances or situations in which an organisation finds itself. In other words, according to contingency theory, managers should strive to achieve a fit or alignment among the key elements of their organisation's operating environment and its internal design (Wang et al., 2004).

Moreover, the theory assumes that organisations generally are capable of adapting to changing environmental conditions: if an organisation encounters changes in key elements of its operating environment, the organisation will also need to change its internal design lest its performance suffer. As such, the theory views organisations as being highly rational entities capable of and willing to make internal changes to achieve a technical fit between environment and design in pursuit of optimal performance (Young et al., 2001).

Contingency theory argues that the effectiveness of an organisation's structure depends on a number of contingency factors, such as the impact of environmental complexity (e.g. price competition from competitors, availability of materials), the type of the organisation's technology, the size of an organisation, the attributes of the organisation's structure and its information systems, and the type of technology used within the organisational structure (Alam, 1997; Birkinshaw, 2002; Chenhall, 2003). According to some researchers (Otley, 1980; Young et al., 2001), contingency theory assumes that managers in organisations react rationally in response to organisational threats or changes, which means that the design of an organisation and its subsystems must "fit" with the environment. This theory ignores the fact that managers may act politically or pursue agendas which circumvent rational responses to the environment.

This study does not adopt contingency theory as a theoretical framework for several reasons. Contingency theory has an objectivist approach that ignores two issues that may be important for an understanding of organisations and the role of management accounting within them. Cooper (1981) divided the issues into two parts, which are: firstly, cognition, culture and symbols are important elements of organisational life; the second issue is that organisations may develop complex rationalities and rationalisations for their actions, especially when they are interacting with a rapidly changing environment (p.193). In other words, contingency theory ignores how individuals influence the organisational strategy. Contingency also ignores the socio-political aspects of organisational life and the ways in which these impinge on organisational practices (Otley, 1978, 1980). Contingency theory sees management control systems as passive tools designed to assist a manager's decision making, while institutional theory sees management control systems as more active (Chenhall, 2003). Weil and Olson

(1989) argued that organisational research must bring in the perceptions and attitudes of stakeholders who shape organisational behaviour.

Bourgeois (1984) criticised contingency research for failing to lead to a clear causation between contingency factor and structure. He indicated that contingency theorists hold that strategy leads to structure but fail to consider reverse causation, i.e. that structure leads to strategy. Spekle (2001) also argued that contingency theory models tend to be partial in that they focus on elements of control systems, such as budgeting, rather than addressing the full set of control devices.

As has been shown in the preceding section, under contingency theory, system design (including management control systems) in an organisation is constrained by situational factors and depends on the ability of management to find the best fit. However, this is not applicable to the universities participating in this study because the universities in this study have adopted accounting systems, including management control systems, regulated by government and have no alternative other than these systems. This concept is supported by the work of Carpenter and Feroz (2001), who argued that in the public sector, where statutes often dictate the choice of accounting methods, interest-maximising accounting bureaucrats may not independently have the political influence or organisational power necessary to change the accounting practices of governmental entities. Moreover, these authors support the use of institutional theory as an important tool in explaining the choice of accounting systems, including MCS, in an organisation where self-interest maximising actors cannot exert effective influence over the choice of the systems because of their relative power positions in their organisations.

Institutional theory adds the social and political aspects that are absent in contingency theory. Several studies (such as: Alam, 1997; Buchanan and Badham, 1999) have discussed the importance of politics in relation to the issue of change. This research highlights the key role politics can play in driving and shaping change processes. Institutional theory assumes that individuals are motivated to comply with external social pressures (Oliver, 1997).

In summary, because of the shortcomings of contingency theory that have been discussed above, it was not adopted in this research. This research adopts institutional theory as the theoretical framework because it offers a better explanation for understanding management control systems change in autonomous Indonesian universities. Burns and Scapens (2000) and Collier (2001) argued that the institutional theory framework is offered as a starting point for researchers interested in studying management accounting change.

4.3. Institutional Theory

Institutional theory argues that change occurs when organisations attempt to obtain stability and legitimacy (DiMaggio and Powell, 1983). According to Oliver (1997), institutional theory suggests that institutionalised activities are the result of interrelated processes that involve the individual, organisational, and inter-organisational levels. She argues that at the individual level, managers' norms, habits, and unconscious conformity to traditions account for institutionalised activities¹¹. At the organisation level, she argues that corporate culture, shared belief systems and political processes drive institutionalised structures and behaviours. Moreover, at the inter-organisational level, she identifies pressures emerging from government, industry alliances, and societal

¹¹ Oliver's (1997) conclusion is based on the work of Berger and Luckmann (1967)

expectations (for example: rules, norms, and standards about product quality, occupational safety, or environmental management) as defining socially acceptable firm conduct. Those social pressures common to all firms in the same sector cause firms to exhibit similar structures and activities¹².

In recent years, there has been increasing interest in institutional theories within social science (Scott, 1995). Different schools of institutional theory have drawn on accounting in the literature, such as new institutional economics (Williamson, 1975), old institutional economics (Scapens, 1994; Burns and Scapens, 2000), and new institutional sociology (DiMaggio and Powell, 1991; Greenwood and Hinings, 1996; Carpenter and Feroz, 2001; Hussain and Hoque, 2002). Brignall and Modell (2000) argued that institutional theories assume that a primary determinant of organisational structure is the pressure exerted by external and internal constituencies on the organisation to conform to a set of expectations to gain legitimacy and so secure access to vital resources and long-term survival.

The three schools of institutional theory identified above focus primarily on different issues. In old institutional economics (OIE), issues of influence, coalitions, and competing values were central, along with power and informal accountability structures (Scapens, 1994; Burns and Scapens, 2000). OIE does not accommodate extra-organisational (environmental) factors in its analysis. The main focus of new institutional economics, on the other hand, is on the issues of the making of optimal choices by organisational actors with a view to maximising the economic outcomes of their activities (Williamson, 1975). New institutional economics focuses primarily on micro-analytic questions (e.g. the comparative efficacy with which alternative generic

¹² Oliver's (1997) summary is based on the work of DiMaggio and Powell (1983)

forms of governance-market, hybrids and hierarchies economise on transaction costs) but it avoids the broader questions of origins and change in the institutional rules of the game: customers, laws, and politics (Williamson, 1991: 269). Old and new institutional economics are not adopted in this study because of their shortcomings identified above. Instead, new institutional sociology is adopted in this study because it is much broader, and is a multi-dimensional approach which focuses on issues of external and inter-organisational contexts (DiMaggio and Powell, 1993; Greenwood and Hinings, 1996).

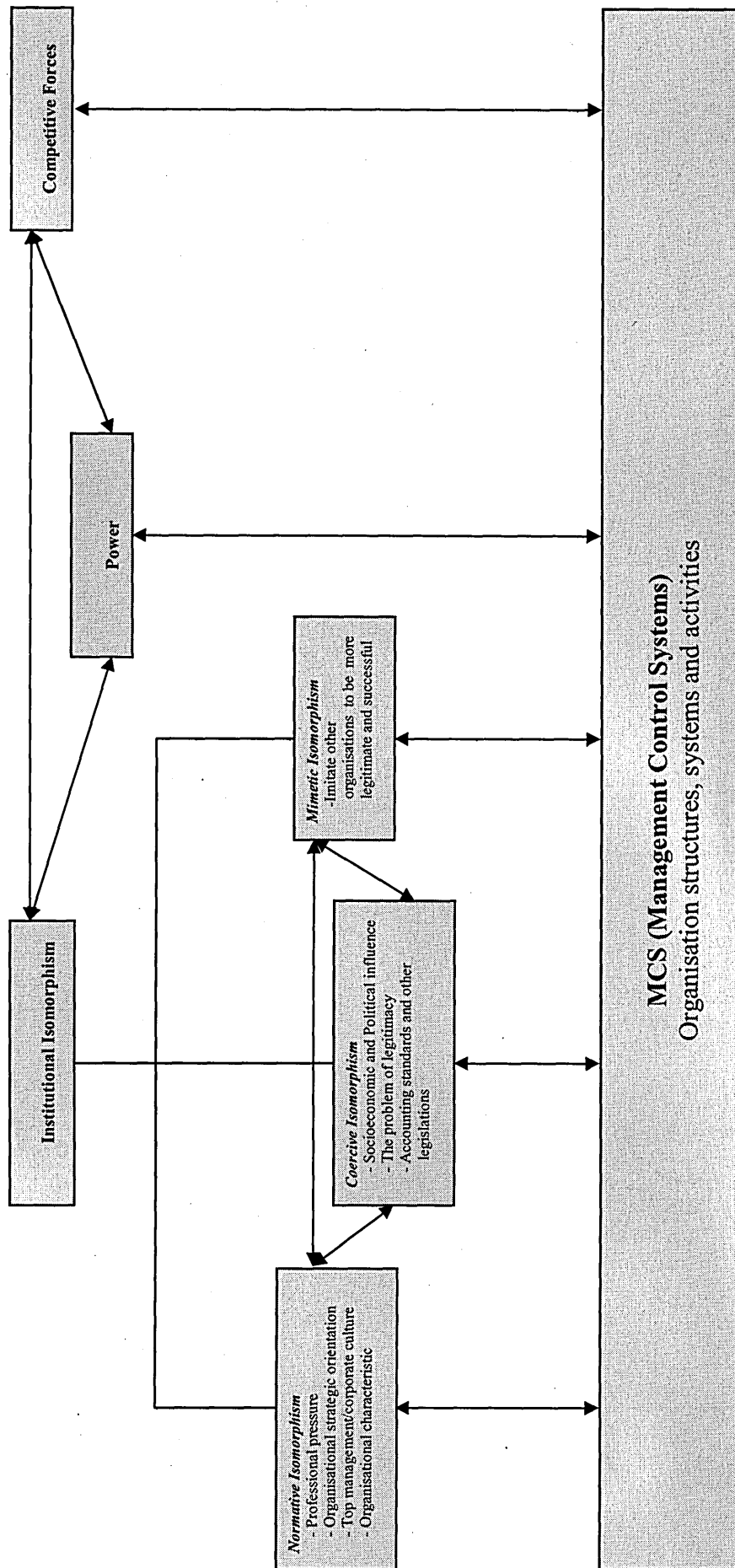
4.3.1. New Institutional Sociology (NIS)

New institutional sociology (NIS) is particularly useful as it provides a very rich theoretical framework for analysing and understanding organisational change (DiMaggio and Powell, 1983; Mizruchi and Fein, 1999; Carpenter and Feroz, 2001).

NIS was chosen as the theoretical framework in this study based on evidence in prior research (such as Greenwood and Hinings, 1996; Hussain and Hoque, 2000), which found it to be a useful theoretical framework for achieving a richer understanding of the phenomena being studied from its broader context. The theoretical framework adopted for the study is illustrated in Figure 4.1.

In NIS, legitimacy plays a central role as a force that constrains change and puts pressure on organisations to act alike (DiMaggio & Powell, 1983). Lawton et al. (2000) support the opinion of the importance of legitimacy in an organisation and argue that the organisation can fail if it loses external legitimacy with key stakeholders, particularly resource providers. Hence, successful organisations are those that gain support and legitimacy by conforming to social pressures (Oliver, 1997).

Figure 4.1. : Theoretical Framework



Thus, practices in an organisation are adopted for reasons of legitimacy in the eyes of external institutional actors and not only for achieving production efficiency and effectiveness (Zucker, 1987; Alam, 1997). NIS focuses on the pressures and constraints of the institutional environment. Organisations experience pressure to adapt their structure and behaviour to be responsive to institutional environment demands and expectations in order to survive (DiMaggio and Powell, 1983; Oliver, 1991).

Institutions themselves are defined as regulatory structures, governmental agencies, capital markets, laws, courts, professions, and public opinions (see DiMaggio and Powell, 1983; Oliver 1991). According to Zucker (1977) and DiMaggio & Powell (1983), NIS focuses on the reproduction or imitation of organisational structures, activities, and routines in response to state pressures, the expectations of professions, or collective norms of the institutional environment. The desire of the organisation to look like and imitate others is to avoid a lack of credibility. Oliver (1991) argues that besides obtaining legitimacy, a change in an organisation is also motivated by the need to enhance a means of acceptance and survival.

Johnson (2000) and Ingram et al. (2002) argued that NIS can be used to help us to understand the process of organisation status change (for example, privatisation). They also argued that NIS is used to gain knowledge of how actors in the process of privatisation deal with the forces of institutional change at the level of sense making and action. Organisational choice is limited by a variety of external pressures, and organisations must be responsive to external demands and expectations in order to survive. DiMaggio and Powell (1991) and Meyer and Rowan (1991) both argued that to conform to external demands, organisations will adopt practices or structures that are poorly suited for the task that has been mandated by their environment. According to

Powell (1991) and Newman (2000), the reason for this is because these external agents are the suppliers of key resources and it is more likely that organisations that adapt to the pressures in order to obtain scarce resources will have higher survival chances than those that do not.

Furthermore, Oliver (1997) suggested that under NIS, external social pressure (such as government regulation, public interest groups) reduces variation in firms' structure and strategies. Carpenter and Feroz (2001) found that all strategic responses to resist institutional pressure for the adoption of an accounting system will ultimately fail because of the potency of the institutional pressure that results from the well-organised professional accounting and governmental institutional fields. The adaptation of an organisation to its institutional environment is called isomorphism (DiMaggio and Powell, 1991), which is discussed below.

4.3.1.1. Institutional Isomorphic Change

Organisations need to conform to institutional rules and norms to legitimise their existence (Meyer and Rowan, 1977; DiMaggio and Powell, 1983). DiMaggio and Powell (1983) identified two types of isomorphism, namely competitive and institutional.¹³ Institutional isomorphism is caused by the need for the organisation to maintain institutional legitimacy, and political as well as market position (DiMaggio and Powell, 1983). DiMaggio and Powell (1983) in their study then identified three mechanisms through which institutional isomorphic change occurs, namely coercive, mimetic, and normative.

¹³ Most previous studies on NIS have tended to focus only on institutional isomorphism to the neglect of competitive isomorphism. However this study also addresses issues around competitive isomorphism.

Granlund and Lukka (1998) summarised studies from DiMaggio and Powell (1983) and Oliver (1991) and stated that institutional isomorphism is based on two core ideas, which are environments are collective and interconnected, and organisations must be responsive to external demands and expectations in order to survive. To summarise their study, Granlund and Lukka (1998) presented a table to illustrate the factors that drive changes in management accounting in an organisation (see Figure 4.2. below). The table below is very important in starting to draw the theoretical framework that is used in this thesis.

<p>Economic Pressures</p> <p>Factors driving convergence:</p> <ul style="list-style-type: none"> o Global economic fluctuations/recessions, deregulations of markets o Increased competition (the globalisation of markets) o Advanced production technology (e.g. JIT) o Advanced information technology (e.g. integrated systems such as SAP R/3, ABC Software packages, expert systems, Internet, Intranet, Electronic Data Interchange, Local/Wide Area Networks, etc.) <p>Coercive Pressure</p> <p>Factors driving convergence</p> <ul style="list-style-type: none"> o Trans-national legislation (e.g. European Union) o Trans-national trade agreements (e.g. GATT/WTO, NAFTA, APEC, EU) o Harmonisation of the financial accounting legislation o Trans-nationals' (especially global firms') influence on their subsidiaries o Headquarters' influence in general <p>Factors driving divergence</p> <ul style="list-style-type: none"> o National legislation o National institutions/ regulation (labour unions, financial institutions, etc.) <p>Normative Pressures</p> <p>Factors driving convergence</p> <ul style="list-style-type: none"> o Management accountants' professionalisation (networking, etc.) o University research and teaching <p>Factors driving divergence</p> <ul style="list-style-type: none"> o National cultures o Corporate cultures <p>Mimetic Pressures</p> <p>Factors driving convergence</p> <ul style="list-style-type: none"> o Imitation of leading companies' practice (cf. Benchmarking) o International/global consultancy industry <p><i>Taken from:</i> Granlund and Lukka (1998, p.153)</p>

Table 4.2 : Drivers of Management Accounting Change

Coercive Isomorphism

Coercive isomorphism involves pressures on organisations by external constituents. This is driven by two forces: pressures from the other organizations on which a focal organization is dependent externally, such as external resource providers including the state and the credit markets, and an organization's pressure to conform to the cultural expectations of the larger society – to adopt new systems or practices (Covaleski and Dirsmith, 1988b; DiMaggio and Powell, 1988; Mizruchi and Fein, 1999). According to Pfeffer and Salancik (1978) and Oliver (1991), coercive isomorphism pressures are more common during periods of crisis and uncertainty because of influence from external resource providers.

Data from Lawton et al. (2000) showed that the most important source of force for the introduction of performance measurement systems in 74 UK public sector organisations was legislation or central government directives. There is a threat of punishment or the use of force by the headquarters / parent company if its foreign divisions / subsidiaries do not comply with standards of systems or practices used in the headquarters / parent company. A similar approach will also be used by the central government to make sure that state governments and their units adopt its standard of practice. Public sector organisations experience pressure to conform to government standards since violating them will mean losing their legitimacy and will therefore affect their ability to obtain resources and social support (DiMaggio and Powell, 1983; Tolbert, 1985). According to DiMaggio and Powell (1983), budgeting is an example of coercive isomorphism that is often required by the central government for organisations to be eligible for continued funding. Political pressures from the central government have influenced the decision making and operation of the studied universities.

Some accounting studies that adopted the new institutional perspective (such as: Covalleski and Dirsmith, 1988a; Mezas, 1990; Covalleski et al., 1993, 1996; Carpenter and Feroz, 2001) focussed on the impact of coercive isomorphism on shaping organisations' accounting practices. For example, Covalleski et al. (1988a) described how the state government played a central role in the formulation of the University of Wisconsin System (UWS) accounting systems. While, Covalleski et al. (1993) found that pressure for the development of a case-mix accounting system in health-care organisations has been exerted by the U.S. Federal government, which is a major payer of health-care costs under the Medicare and Medicaid programmes. A further example of this kind of legitimation can be obtained from Carpenter and Feroz's (2001) study, which observed that the early state adoption of GAAP in the USA stemmed from coercive isomorphism from the credit market. They added that in government entities, certain organisational practices have been applied, not because these practices are the rational way to manage the institutions, but because they are the socially accepted method of the proper way to manage it. In addition, in government entities, Carpenter and Feroz (2001) also contend that a government dictates accounting practices in its entities because the government imprints such practices as the only acceptable methods and hence excludes the use of other, alternative methods of accounting.

The theoretical framework of this study draws on the interplay between an organisation and its environment, including the other organizations on which a focal organization is dependent (e.g. government bodies). It has been argued by many researchers (such as: Brignall and Modell, 2000; Dacin et al., 2002) that organisations or managers have the ability to influence the regulatory environment and the process of institutionalisation through interaction with the institutional environment.

Mimetic Isomorphism

The second mechanism that encourages similarity has been labelled mimetic isomorphism. Mimetic isomorphism is a response to organisational uncertainty in identifying the best course of action (Carpenter and Feroz, 2001). The concept of mimetic isomorphism is imitating another organisation in the field that is considered to be successful. As legitimacy has a central role in NIS, this isomorphic change would occur when an organisation models itself on similar organisations in its field that it perceives to be more legitimate or successful (DiMaggio and Powell, 1983, p.152). In other words, many organisations may change their strategies, structures and procedures because other successful firms in their industry are doing so and being successful. This imitation is used to enhance the legitimacy of means utilised in an organisation, even though there may not be concrete evidence that adoption of such procedures enhances efficiency or effectiveness (Meyer, 1986; Covalski et al., 1993). Concern over legitimacy thus forces organisations to look alike (homogenous) and not be different, by choosing to select and implement systems used by the most prestigious, visible members of an industry to gain legitimacy, reduce uncertainty, minimise risk, and ensure survival.

Normative Isomorphism

The third and final mechanism of institutional isomorphism is known as normative isomorphism. Normative isomorphism is associated with professionalisation and national and corporate cultures (see also Granlund and Lukka, 1998). DiMaggio and Powell (1983) and Mizruchi and Fein (1999) contend that professionalisation as the main idea of normative isomorphism involves two processes, namely that members of professions receive education from educational institutions, which leads them to similar views, and that members of professions interact through professional associations,

which further diffuses ideas among them. Organisational changes are much more likely to have an influence when they are supported by both national and worldwide professional associations (Meyer and Scott, 1982).

According to Meyer and Scott (1982) and DiMaggio and Powell (1983), this normative isomorphic pressure for change in an organisation occurs when an organisation seeks institutional legitimacy. Granlund and Lukka (1998) added that this institutional legitimacy refers to the degree of cultural support for an organisation and is derived from the wider institutional environment. Innovations linked to cultural authority are more likely to have an influence and be easier to implement than innovations which lack institutionalised legitimacy.

The study by Carpenter and Feroz (2001) of four state governments in the United State of America (USA) offers a good example of the influence of professional associations as a pressure for change in an organisation. They found that professional associations, such as the Government Finance Officers Association (GFOA), influence state governments in the USA to promote specific financial management practices. The association indicates that the non-use of Generally Accepted Accounting Principles (GAAP) in financial reporting by government would be considered a negative factor in the credit-rating process. Standard and Poors lowered the state's credit rating on general obligation bonds because the state's financial reporting was not provided with sufficient information to rate bonds.

In addition of that, Granlund and Lukka (1998) suggest that in the context of normative pressure, national and organisational cultures have been seen as perhaps the most important drivers regarding management accounting practices. The discussion of the

impact of culture in Indonesia in this thesis is in accordance with the reality that, as has also happened in other Asian countries, Indonesia has a strongly influential culture that has always been a principle underlying the performance of the day-to-day activities of the people in the country (Dean, 2001).

In summary, coercive, mimetic and normative isomorphism help explain the influence of the external environment on the use of management control systems and enhance the similarity of systems across organisations. The study by Carpenter and Feroz (2001) provides an example of this comment: at the end of their study, they predicted that all state governments in the USA would eventually bow to institutional pressure for change and adopt GAAP for external financial reporting. Because of institutional pressure, organisations tend to adopt the same practices. This statement has been supported by Oliver (1997) that based on her review of many institutional studies, she concluded that “organisations in the same environment or industry tend toward similarity over time because they conform to many common influences and are interpenetrated by relationships that diffuse common knowledge and understandings” (p.706).

Finally, it could be suggested that it is possible to draw on only one or two dimensions of the isomorphism. This opinion is supported by a literature survey from Mizruchi and Fein (1999), which revealed that over 75% of studies using the new institutional sociology that were published in major American journals have focused on only one aspect of isomorphism.

4.4. Shortcomings of New Institutional Sociology (NIS)

This section discusses criticisms of NIS. Despite its strengths in organisational analysis, there are some limitations to the use of NIS: these limitations have been addressed by

many researchers, such as Powell (1985), Covaleski and Dirsmith (1988), Oliver (1991), Greenwood and Hinnings (1996), Collier (2001), and Kostova and Kendall (2002). Two major limitations relating to the issues of power and competitive pressure are discussed here.

NIS has been criticised for only giving minimal attention to the role of power and agency in shaping action, and a lack of discussing the conflicts that appear as a result of relations of power (see Powell, 1985; Covaleski and Dirsmith, 1988; DiMaggio, 1988; Fligstein, 1996; Greenwood and Hinnings, 1996; Collier, 2001; Kostova and Kendall, 2002). In other words, NIS fails to provide a theory as to how these competing interests can be accommodated or reconciled by management. In relation to this, the theory has been argued by Greenwood and Hinnings (1996) to be weak in analysing the internal dynamics of organisational change, meaning that it is silent on why some organisations adopt radical change whereas others do not, despite experiencing the same institutional pressures (p.1023).

In addition, since NIS was originally based on research concerning organisations in non-competitive environments (DiMaggio and Powell, 1983), the theory fails to pay much attention to competitive isomorphism. Competitive isomorphism has been argued by Mizruchi and Fein (1999) and Carpenter and Feroz (2001) to relate primarily to fields in which free and open competition exist. Even though the two studied organisations are not-for-profit organisations, they are located in an environment in which some form of free and open competition exists.

Both limitations identified above are addressed in this thesis. Thus, this study examines the interplay between institutional forces, market forces, and power relations in shaping

MCS in the universities studied. The next sub-section explains the issues of power, agency and competitive forces in an organisation.

4.4.1. Interplay Between Institutional Forces and Intra-Organisational Power Relations

The use of NIS for this study is based on an argument from Collier (2001) that an NIS perspective enables a consideration of relations of power as they affect the organisation. Some previous studies have used institutional isomorphism and power in order to discuss changes in the organisation's systems (see Covaleski and Dirsmith, 1988; Abernathy and Chua, 1996; Collier, 2001, Modell, 2002). However, they argued that the notion of power in NIS - based accounting research is under-explored.

Power has the potential to be oppressive or to enable an organisation to adapt to its environment (or its problem) and also facilitates management reforms in an organisation (Salancik and Pfeffer, 1977). As has been discussed above, NIS has been criticised for its failure to sufficiently address the relations of power of different institutional actors, and the conflict which can result from the relations of power (Collier, 2001). Pfeffer (1992) defined power as the ability to change behaviour through politics and influence. As a consequence, Salancik and Pfeffer (1977) and Pfeffer (1992) argued that those who have power have the ability to bring about the outcomes they desire and overcome resistance. One of the most important studies in understanding power is the study of Hardy (1996), which discusses the use of power in the strategy-making process. She defines power as a force that affects outcomes, while politics is power in action. She explained that power has the ability to make others do what an individual or organisation wants, sometimes against their will. Power continuously evolves through social and political exchanges. Salancik and Pfeffer (1974) noted that power in social

systems could be vertical or horizontal and may be interpersonal or involve relations between organisational units.

Hence, by using the definition above, intra-organisational power relationships could imply conflicting self-interests among actors in an organisation. The conflictual nature of power has been evident in the accounting literature for some time (see previous studies, such as Cooper et al., 1981; Hopper et al., 1987; Greenwood and Hinings, 1996). As Markus and Pfeffer (1983) found, it is common to find resistance to issues of power in the accounting control systems of an organisation. The reluctance to change itself has been argued by Oliver (1992, 1997) and Eisendhardt (1988) to occur because individuals find it difficult to alter entrenched organisational forces of habits, history and routines/traditions that have become the standard of doing things in the organisations; because change to less familiar practices precipitates fear or uncertainty; or because the replacement of traditional practices with new ones may be perceived as socially unjustifiable or disloyal to an organisation's norms and values.

The ability of internal actors to resist the implementation of new practices can be expected when they can mobilise and sustain resources and cultural and political support within the organisation to attain sufficient power for this purpose (see Covalski and Dirsmith, 1988a, 1988b; Greenwood and Hinings, 1996; Oliver, 1997; Modell, 2002). Collier (2001) also found that resistance also emanates from cultural elements within the organisation. In Collier's (2001) study, the culture emanates from the police's occupational culture that was seen as relevant to operational policing and consistent with the crime fighting, law enforcement ethos. Pfeffer and Leong (1977) studied a confederation of independent social service agencies, the United Fund, to investigate the effects of power and dependence on resource allocation decisions. They described the

relationship between the agencies and the Fund by stating that there was a relative dependency of the agencies on the Fund and the Fund on the agencies. The individual agency's power within the United Fund originated from the importance of the agencies for the Fund and the agencies ability to articulate a credible threat of withdrawal. They further argued that the ability to threaten this came from the agency's ability to raise funds on its own outside of the Fund.

In contrast with the explanation above, Giddens (1976) emphasised that power does not necessarily imply conflict in circumstances where the interests of different groups coincide. In other words, conflict only occurs when those interests do not coincide. Therefore, in adopting Giddens' view, power has the potential to have a positive influence if the actors' interests coincide. Giddens' (1976) view has been supported by Collier (2001), who adopted NIS to show the effects of power that is not conflictual but contingent.

From the discussion above, it can be concluded that institutional change is not only seen as arising out of pressures from an organisation's external environment but also from the actions and interpretations of organisational actors. Any discussion of the interaction between the institutional environment and organisations needs to be located amidst relations of power. A similar argument has been made by Burns (2000), that discussion of power helps to explain the "why" and "how" of the process of accounting change in an organisation and also highlights unforeseen problems encountered in the change process (p.587). Power is one of the most important factors in organisational accounting system changes, since the influence of power from an individual or group will have two different impacts on organisational changes. Burns (2000) argued that while power can provide the energy for implementing accounting change which serves a particular

interest, it could also work fundamentally against such change. This is consistent with Collier's (2001) conclusion that power has both negative and positive influences. Power could be seen as negative since it may create resistance and conflict where interests do not coincide; conversely, power could be seen as having a positive influence when it is not conflictual and enables interests to coincide. Collier (2001) concluded that NIS needs to be more open to the relations of power and their effect on the institution-organisation interface.

In this study, power and leadership are important as Indonesian society (that based on Javanese culture) is strongly patrician and hierarchical, with what appear to be great power distances between each level within a social structure (Dean, 2001). Subordinates are expected to respect those in authority and are not allowed to question such an authority. Status is strictly defined by obligations and responsibilities, which tend to limit movement within the network. As Dean (2001, p.4) points out: *"It will be very uncommon indeed for a person lower in the network to overtake their patron in terms of rank or income"*.

On the other hand, sub-unit power is also an important issue to be examined in this study because intra-organisation relationships play a significant role in the day-to-day activities of a university or other organisations (Pfeffer and Salancik 1974; Salancik and Pfeffer, 1974; Pfeffer and Leong, 1977; Pfeffer and Moore, 1980). The previous chapter provided evidence that decisions in some organisations are made on the basis of subunit power.

Hardy (1996) presents a model for understanding the source of power in four dimensions, which are the power of the resources, processes, meaning, and system (see

Table 4.3. below). The dimensions provide a framework to describe the power of each individual/unit in the studied organisation. Hence, it is important to explain Hardy's four dimensions of power because the dimensions will be used in this thesis to analyse the source of the power of an individual/unit in the studied organisation.

Table 4.3 : Four Dimension of Power

	Power of resources	Power of Processes	Power of Meaning	Power of the system
Source of Power	Ability to hire and fire, rewards, punishments, funding, authority, expertise, etc.	Decision-making processes, participants and agendas, etc.	Symbols, rituals, language, etc.	Values, traditions, cultures and structures of the institutions
Action of Power	Principles of behaviour modification are used to influence specific actions	New awareness is created by opening up processes to new participants, issues and agendas	Change is given new meaning, making it appear legitimate, desirable, rational or inevitable	
Limits to Power	Continual use of 'carrot' or 'stick' is required to ensure continued change; repeated use of the 'stick' may be counter-productive.	New awareness helps sustain new behaviour as long as it remains within existing values and norms.	Change in some underlying values and norms may be possible but specific changes in behaviour will be difficult to effect.	

Source: Hardy (1996)

The first dimension of power from Hardy's model is the power of resources, where actors deploy the key resources on which others depend (such as information, expertise, political access, credibility, stature and prestige, access to higher echelon members, control of money, rewards and sanctions) to influence decision outcomes. In other words, Mizruchi and Fein (1999) explained that organisations are constrained by those on whom they depend for resources. If an organisation is highly dependent on another organisation for an important resource, that other organisation will have power over the first organisation. Maximum power in an organisation occurs when an organisation has unfettered discretion over a resource of high importance to another organisation, for which there are no alternative sources.

Second, the power of decision-making processes is where dominant groups influence subordinates and prevent them from participating fully in decision-making processes.

The dominant actors can participate from behind the scenes. The third dimension of

power is the power of meaning, which is related to the influence of an actor's perceptions, cognitions and preferences so that individuals accept and/or reject the status quo. This type of power lies in the acceptance of the values, traditions, cultures and structures of an organisation that influence all organisation members. This power is the backdrop against which all organisational actions and decisions take place. Culture itself has been defined by Collier (2001, p.468) as *a set of shared key values and beliefs that convey a sense of identity, generate commitment, enhance social system stability, and serve as a sense-making device to guide and shape behaviour.*

4.4.2. Interplay Between Institutional and Competitive Forces

A second limitation in the NIS is the interplay between institutional and competitive forces. DiMaggio and Powell (1983) and Tolbert and Zucker (1983) suggested that there are two forces, which are institutional and competitive isomorphism. Competitive isomorphism relates primarily to fields in which free and open competition exists (Mizruchi and Fein, 1999; Carpenter and Feroz, 2001).

Previous management studies (such as Oliver, 1991, 1997) recognised the contradictions between competitive and institutional pressures. Oliver (1991) noted, for example, that market imperfections increase variations in organisations' resources and resource strategies to secure their competitiveness, while external social pressures (e.g. government regulations and public interest groups) cause organisations to become similar to others in structure and strategy so as to secure their legitimacy.

Oliver (1991), Fligstein (1996), Kraatz and Zajac (1996), Hoque and Hopper (1997), D'Aunno et al. (2000), Gary et al. (2000), and Sherer and Lee (2002) have all emphasised how important it is for researchers to incorporate both market forces and

institutional factors into organisational activities, since actors' choice in an organisation also depend upon market structure in the environment. This point has also been supported by Hoque and Hopper (1997), who argued that it is particularly relevant for analysing organisations that are confronted with uncertainties and, as a result, compete for market position. Sherrer and Lee (2002, p.104) explained the relationship between institutional and competitive forces:

“Without legitimacy, organisations will not be able to achieve initial and early change. Institutional theory speaks to how institutional forces enable initial innovation and early adoption of change. However, without competitive forces, organisations will not need to change. Both forces thus play off each other.”

Evidence from researchers such as Kraatz and Zajac (1996), Hoque and Hopper (1997), and Gary et al. (2000) have identified the influence of market forces on organisations' activities. Kraatz and Zajac (1996) found that local market forces (e.g. consumer demand) prompted divergent changes in curricula among U.S. liberal arts colleges (e.g. offering business degrees). Hoque and Hopper (1997) demonstrated that there is a strong and consistent relationship between high market competition and managers attaching more importance to budget-related activities. Gary et al. (2000) used institutional theory to examine factors associated with the board's adoption of a formal process for evaluating the performance of the Chief Executive Officer (CEO), and found that competitive forces were one of the significant predictors of whether or not the board had adopted a form of evaluation for the CEO. Finally, Sherer and Lee (2002) gave an example of the relation between institutional and competitive forces by arguing that innovation in human resource practice in the principal offices of large law firms was motivated by competitive pressures having to do with human resource scarcities and enabled by institutional forces having to do with the legitimacy of highly prestigious law firm offices.

As can be seen in Figure 4.1, which shows the theoretical framework informing the study, market forces are interconnected with power. Fligstein (1996) explained this relationship, saying, “the internal power struggle is about who will control the organisation, how it will be organised, and how situations will be analysed and responded to. The winners of the internal power struggle will be those with a compelling vision of how to make the firm work internally and how to interact with the competitors”.

However, market forces were not originally of any great concern in NIS (see DiMaggio and Powell, 1983). Hence, market force is supplemented here to explain the choice of the studied organisations to adopt a system(s), and also to show how the interplay between institutional isomorphism and market forces impinges on management accounting systems. Many previous studies have discussed the interplay between institutional isomorphism and market forces in NIS more generally (see Oliver, 1991; Powell, 1991; D'Aunno et al., 2000; Gary et al., 2000) as well as in the accounting literature (such as Hoque and Hopper, 1997; Brignall and Modell, 2000; Hussain and Hoques, 2002; Modell, 2002;).

Figure 4.1 presents the theoretical framework showing the integration of institutional and market forces. As shown in Figure 4.1, in the theoretical framework of this study there are inter-connections between the institutional environment and market forces. For example, states as a market regulator and markets are intimately interconnected.

4.5. Institutional Theory in Management and Accounting Studies

Management accounting change has been conceptualised as change in organisational rules and routines (Burns and Scapens, 2000). Burns and Scapens (2000) concluded that

since management accounting systems and practices constitute organisational rules and routines, a management accounting researcher has to recognise the institutional character in order to understand the complex processes (both conceptually and practically) of management accounting change.

Accounting systems, including management accounting systems, in an organisation could be construed as being shaped by organisational actors and the wider institutional environment. Hence, Burns and Scapens (2000) argued that management accounting change requires a thorough understanding of the current context of the organisation and also requires an understanding of the habits of organisational members and the underpinning assumptions which are taken for granted in day-to-day activity. In other words, a researcher should understand management accounting change in terms of the behaviour of individuals and groups within the organisation. Based on this, several studies have adopted new institutional theory for understanding accounting control systems in organisations.

Accounting systems change in general and management accounting control system change in particular has become a topic of much debate in recent years. Generally, much accounting research has supported the use of an institutional perspective (Covaleski et al., 1993; Hussain and Hoque, 2002; Tsamenyi et al., 2004). Institutional theory has been adopted to provide a much broader understanding of accounting choices and behaviour (Scapens, 1994; Burns and Scapens, 2000): it can also be used to explain changes in an organisation because of the pressures and constraints of the institutional environment (Di Maggio and Powell, 1991).

Theoretical Framework

Institutional theory is potentially valuable in helping one to describe why an organisation changes and how the process of change operates. The theory can also lead us to a better understanding of the process of management accounting change. Because of this, in recent years there have been several accounting researchers, such as Covaleski and Dirsmith (1988), Mezas (1994), Granlund and Lukka (1998), Brignall and Modell (2000), Burns and Scapens (2001), Carpenter and Feroz (2001), Collier (2001), Granlund (2001), Modell (2001), Hussain and Hoque (2002), and Tsamenyi et al. (2004) who have used institutional theory as a framework for explaining the change of accounting systems, which includes management control systems, in both the public and private sectors in many countries. In addition, Covaleski et al. (1996) provided a review of management accounting studies that applied institutional theory to inform their analysis.

Institutional theory provides explanations for changes in organisational practices including accounting practices, referred to as institutional isomorphism (DiMaggio and Powell, 1983). Covaleski and Dirsmith (1988) used institutional theory to provide a convenient point to begin studying the University of Wisconsin's budgetary relationship with the state. Burns and Scapens (2000) used institutional theory to examine management accounting change and argued that management accounting is shaped by and shapes the organisation's institutions. Carpenter and Feroz (2001) used new institutional theory to explore how institutional pressure exerted on four US state governments influenced the decision of these governments to adopt or resist the use of GAAP for external financial reporting.

Hussain and Hoque (2002) used new institutional theory to understand and explain what factors affected the design and use of non-financial performance measurement systems

in four Japanese banks. Granlund and Lukka (1998) used institutional theory to identify and analyse forces that seem to be causing convergence in management accounting practices around the world. Tsamenyi et al. (2004) explored the changes in the cash management information system of a large Spanish Electricity Company (Sevillana). They concluded that the institutionalisation of the new accounting and financial information system was shaped externally by the political and regulatory environment, and internally by the parent company's control, and the influence of professional associations. Collier (2001) applied institutional theory to understand the context, process and consequences of the introduction of new management accounting systems to a police force institution in the West Mercia Constabulary in the UK.

In summary, even though this study has found that there are many scholars who have used institutional theory as a framework for explaining the change of accounting systems, which includes management control systems, in both the public and private sectors in many countries, this study did not find institutional theory used as a framework to explain accounting systems in a university in LDCs. Further summary about some previous studies on management and accounting practices that used institutional theory can be found in Appendix 4.1. at the end of this thesis.

4.6. Chapter Summary

This chapter has argued that while technical (or contingent) explanations of cost management have not been rejected by researchers, they are clearly viewed as incomplete (Scott, 1987). Institutional theory adds social and political elements, and thus broadens the scope of our investigation, increases understanding of the topic of this study and improves the intelligibility and logic of the attempts to explain the changes of management accounting control practice in the organisations. Hence, institutional

theory has been used here as the framework for explaining the MCS change in the organisations.

The arguments presented above are for institutional change to be examined in cognisance of competitive forces and power relations. There are three mechanisms through which institutional isomorphic change occurs, each with its own antecedents: firstly, coercive isomorphism, which stems from political influence and the problem of legitimacy, including industrial relationships, government bodies, law and regulations; secondly, mimetic isomorphism is a response to organisational uncertainty in identifying the best course of action; thirdly, normative isomorphism, associated with professionalisation, the organisations and national culture. Although this scarcity of individual factors motivates an organisation to change, the integration of these isomorphisms increases the likelihood of change.

Factors identified as increasing the potency of institutional pressure include: fiscal stress and the need to access the credit market; support of key appointed and/or elected officials; organisational politics and the potential to alter power relations; participation of key accounting bureaucrats in professional accounting organisations; and change in elected leadership.

The discussion in this chapter concludes that NIS suggests that an organisation will adapt their management practices, which include governance structures and management accounting control, to gain legitimacy and to ensure their survival. Management control systems could therefore be construed as being shaped by organisational actors and the wider institutional environment.

In summary, the NIS therefore provides a much broader theoretical framework for analysing the influence of both exogenous and endogenous factors on an organisation (DiMaggio and Powell, 1991; Greenwood and Hinings, 1996; Hussain and Hoque, 2000; Carpenter and Feroz, 2001). This chapter looked at previous institutional management and accounting research and noted that very little institutional accounting research focuses on the education institutions, especially in LDCs (Covaleski and Dirsmith, 1988).

Finally, from the discussion above, we can see that most of the studies on organisational change that have applied NIS have focused on one organisation only, with few exceptions (for example, Covaleski and Dirsmith, 1988; Abernathy and Chua, 1996). This study applies NIS to two organisations, and would contribute further knowledge to this neglected area. Integrating the arguments from institutional and competitive isomorphism with power issues contributes to further understanding and predicting the sources of institutional change.

This explanation will be continued with a description of the Indonesian environment in the next chapter.

CHAPTER FIVE

INDONESIAN ENVIRONMENT

5.1. Introduction

This chapter presents a description of the Indonesian environment (including economic, political and social issues). This chapter is necessary to lay the foundations for investigating how the external environment influences the management accounting control practice in the two studied universities.

This chapter is organised into six parts. After introduction part, part two describes the Indonesian geography and population. It is followed by description of Indonesian legal systems. Part four examines Indonesian culture, while part five describe the labour force in Indonesia. Finally, the final part provides a summary of the chapter.

5.2. Geography and Population

Indonesia has a long history. During the 17th century, Indonesia came under the control of the Netherlands, except for East Timor, which remained under the control of Portugal until 1975. The Indonesian economy is still underdeveloped, and is smaller and weaker compared with that of other countries, because Indonesia was the victim of 350 years of marauding by Dutch, Portuguese and other Western colonial rulers, and also the Japanese (Jakarta Post, 2002). In the early 20th century, an independence movement began in Indonesia and continued with a proclamation by Sukarno and Hatta to establish the Republic of Indonesia. In 1950, Indonesia became a member of United Nations.

The name Indonesia was derived from the Greek name "*indos nesos*", meaning islands near India. The country is the world's largest archipelago, with 6 major and more than 17,500 minor islands¹⁴ spreading more than 3,000 miles from East to West. The archipelago is at a crossroads between two oceans, the Pacific and the Indian, and bridges two continents, Asia and Australia. Its geographic coordinates stretch from 6⁰ 08' north to 11⁰ 15' south latitude, and 94⁰ 45' to 141⁰ 05' east longitude.¹⁵ The Indonesian sea area is four times greater than its land area, which is about 1.9 million sq-km; the sea area is about 7.9 million sq-km (including the exclusive economic zone), constituting about 81% of the total area of the country.¹⁶ This strategic position has always influenced the cultural, social, political, and economic life of the country.

Five main islands and 30 smaller island clusters are the homelands for most Indonesians. These main islands include Sumatra, Kalimantan, Sulawesi, Irian Jaya, and Java. Java accounts for only 6.9% of the landmass of Indonesia and is the home of over 70% of Indonesia's total population (CIA, 2003). Hence, Javanese culture is the most

¹⁴ About six thousand are inhabited

¹⁵ http://www.indonesianembassy.org.uk/indonesia_profiles.html#geography

¹⁶ http://www.indonesianembassy.org.uk/indonesia_profiles.html#geography

influential culture in Indonesia. In terms of administrative divisions in Indonesia, there are 27 provinces, 2 special regions, and 1 special capital city district¹⁷. The capital and centre of the country has always been Jakarta in the North-western tip of Java.

United Nations Development Program (UNDP) data remarked that the Human Development Index (HDI) in Indonesia in 2002 was 110th out of 120 countries, which reflects that the quality of our nation is poor in terms of income, relatively low in terms of education, and not hygienic in terms of health. Due to separation by the sea, some of the Indonesian inhabitants have lost contact with the others and have individually developed their own cultures and languages. The islands, therefore, have diverse ethnic groups, even though they have similar ancestors. Some are highly civilised, such as those who live in Sumatra, Java, and Bali, and some still live primitively, for example, isolated tribes in Irian Jaya. Today, about 366 ethnic groups with 35 language families and 200 dialects live together in Indonesia. However, one national language, which is commonly known as Bahasa Indonesian, has been used to bind together the whole country. Since Indonesia has an extremely diverse population and culture, *Bhineka Tunggal Ika*, or Unity in Diversity, has been used as the motto of the Republic of Indonesia.

5.3. Indonesian Legal Systems

Indonesia is a republic based on the 1945 Constitution. The Constitution serves as the supreme law and sets forth the basic state ideology in five fundamental principles (Pancasila). Every Indonesian, organisation and form of business should respect the sacred values of Pancasila as a cultural principle because it is the ideology of the state

¹⁷ see <http://www.cia.gov/cia/publications/factbook/geos/id.html#Govt>

and the life philosophy of the Indonesian people¹⁸. In brief, and in the order given in the Constitution, the Pancasila principles are:

1. Belief in the one supreme God;
2. Just and civilised humanity;
3. Nationalism expressed in the unity of Indonesia;
4. Democracy led by the wisdom of deliberations among representatives;
5. Social justice for the whole of the Indonesian people

After the 1945 Constitution, there is a hierarchy of laws, listed here in the order of their level of authority:

1. MPR (the People's Consultative Assembly) Resolutions;
2. DPR (the House of Representatives) Enacted Laws;
3. Temporary Regulations in Lieu of Law;
4. Government Regulations;
5. Presidential Decrees;
6. Ministerial Regulations/Instructions and lower departmental decrees;
7. Regulations and instructions.

As stated above, the 1945 Constitution represents the highest regulation in the Indonesian legal system, which serves as the basis and reference for all subordinate regulations of Indonesia. All must be based on and refer to such a higher level of regulation. The MPR is the highest legislative institution as well as the highest authority of state in Indonesia and consists of 700 members¹⁹. MPR resolutions are implemented

¹⁸ Appendix 1 provides more explanation about the state philosophy, the coat of arms, and the national anthem.

¹⁹ The members include representatives from the DPR, regional delegates, representatives of political parties, and representatives from functional groups such as farmers, businessmen, students and the armed forces.

through laws enacted by the DPR. After enactment, the laws are published in the formal statute book. These laws may be made more specific through Government Regulations or Ministerial Decrees. The 1945 Constitution Article 20 paragraph (1) states that every law requires ratification by the House of Representatives, while Article 5 paragraph (1) states that the President of the Republic of Indonesia assumes the highest power of administration under the Constitution.

In the government system of Indonesia, the President is both head of state and chief executive. He or she holds office for a term of five years and is eligible for re-election. Since the President receives a mandate from the People's Consultative Assembly (MPR), he/she must execute his/her duties in compliance with the Guidelines of State Policy as decreed by the Assembly. Indonesia is a republic with sovereignty vested in the people to be fully exercised by an elected People's Consultative Assembly, which is the highest political institution in the state: the people voice their political and social aspirations through this body.

The Indonesian coat of arms consists of a golden eagle, called "GARUDA," that is a figure from ancient Indonesian epics. The motto, "Bhineka Tunggal Ika" (Unity in Diversity), is enshrined on a banner held in the eagle's talons. This old Javanese motto was introduced by Empu Tantular, a saint of the Majapahit Kingdom, in the 15th Century. It signifies the unity of the Indonesian people despite their diverse ethnic and cultural backgrounds. More detail about the Indonesian legal system can be found in Appendix 5.1 at the end of this thesis.

5.4. Culture in Indonesian Environment

Compared to Western business systems, Asian, including Indonesian, business systems reflect a much higher commitment to personal relationships and trust, rather than principals of formal-legal rational authority (Whitely 1992, 1996; Appelbaum, 1998). Indonesia is the fourth most populous country in the world with more than 230 million people (July 2002)²⁰. It is populated by more than 300 ethnic groups speaking literally thousands of dialects, with one mother tongue called '*Bahasa*' (a modified form of Malay)²¹. The country contains different ethnic groups such as Javanese (45%), Sundanese (14%), Madurese (7.5%), coastal Malays (7.5%) and other ethnic groups (26%). The different social and cultural groups are naturally isolated from each other due to the geography of the region.

The country is blessed with a rich and diverse mix of traditional cultures and art forms. Indonesian culture is an intermixture of influences from many diverse civilisations, which include: Hinduism and Buddhism, which arrived from India during the early first century AD; the Arabic influence during the 13th century, mainly through the teachings of Islam; and also the South-East Asian and Polynesian cultures, as well as influences from the influx of Chinese and Dutch people.

Religion and religious freedom of speech is guaranteed by the Constitution. Indonesia has been influenced by most of the world's major religions, which were first introduced to the coastal areas and subsequently spread inland. Islam, in various forms, is the faith of about 88 per cent of the population, and Indonesia is the world's most populous Muslim nation. Christianity is the largest of the minority religions with almost 9 per cent of the population; about two-thirds are Protestants. Buddhism is practised by about

²⁰ <http://www.cia.gov/cia/publications/factbook/geos/id.html#People>

²¹ There are 583 languages and thousands of dialects

2 per cent of the population, most of whom are of Chinese background. Hinduism, once the predominant religion, is now practised by only about 2 per cent of the population, principally in Bali; however, Hindu influences remain strong within the wider Indonesian culture and society. A variety of indigenous religions are still practised in more remote areas. With the majority of the population Islamic, religion and faith enter into decision making on a more subjective basis than in most Western cultures²². The influence of Buddhism in Indonesia started from the 7th to 14th centuries on the Island of Sumatra. Hinduism prevailed in the 14th century in eastern Java, while the Hindu Empire conquered most of what is now known as Indonesia. During the 12th century, Islam arrived in Indonesia and dominated in Java and Sumatra by the end of the 16th century.

According to Whitfield (2003), employees in Indonesian organisations are reluctant to talk to a clear superior concerning problems or concerns in the performance of their own duties. In the organisations, any problem should be solved by the subordinate without informing the superior, which, as a result, spares him the unpleasant experience of receiving bad news. Analysis of Indonesian culture by Hofstede indicates that Indonesian society has low individualism (collectivist). To explain this, Hofstede stated:

"The low individualism is manifest in a close long-term commitment to the member 'group', be that a family, extended family, or extended relationships. Loyalty in a collectivist culture is paramount, and over-rides most other societal rules and regulations. The society fosters strong relationships where everyone takes responsibility for fellow members of their group." (<http://www.geert-hofstede.com>)

Hofstede's explanation is appropriate for the basic Indonesian principles that have been inspired by the concepts of mutual assistance (gotong royong) and communal meetings and gatherings (musyawarah) to arrive at a consensus (mufakat). This system derives

²² http://www.geert-hofstede.com/hofstede_indonesia.shtml

from the traditions of agriculturally-based rural life, and is still very much in use in community life throughout the country.

Because responsibility to the group remains very strong in modern day Indonesian business culture, an employee may not want to approach his superior on his own initiative, especially if the employee has knowledge that could cause himself or a co-worker to lose face or in another way to become embarrassed (Whitfield, 2003). In Indonesian organisations, everyone has a status that is different in every situation. In a situation where there are several people with equivalent status, group consensus decides. In a situation where there is a clear superior, that person decides. A foreign executive at the level of general manager or chair of the board of directors has a very high status in Indonesian organisations. This will influence the way that Indonesian employees treat him and he must understand and respect the obligations that his status places upon him (Whitfield, 2003).

5.5. Labour Force

There are two kinds of employment in Indonesia which are employment in private sectors and civil servants. In 2002, 148 million people were in employment, with almost 45 per cent in agriculture, 16 per cent in manufacturing, and 39 per cent in the service sector, including transport and public services (CIA, 2003). Since 1997, Indonesia has experienced an increase in the unemployment rate, from 4.68% in 1997 to be 8.10% in 2001. Furthermore, as a result of the economic crisis that hit Indonesia, great employment termination (PHK) was to be found everywhere: around 4.2 million people lost their jobs (Kompas, 3rd April 1999).

In term of civil servants, according to data from BPS-Statistics Indonesia (2002), Indonesia has 3.9 million civil servants. Based on occupation, only 5.32 percent of the

total civil servants occupied a structural position and around 94.68 percent occupied a non-structural position. Civil servants with lower levels of education accounted for 13.31 percent of the total, while civil servants with higher levels of education accounted for 27.43 percent. In Indonesia, the salary received by civil servants is lower compared to the salary received by employees in the private sector. Some civil servants even have an income less than the Regional Minimum Wage (Upah Minimum Regional / UMR). The Government is experiencing difficulty in increasing the standard of Civil Servant (PNS) salary due to the increase in the routine budget that occurs as a result of payment of instalments of the principal and interest of foreign debt, which is continually swelling. The amount of the annual payment for foreign debt is almost twice the amount of funds paid for the salaries of civil servants (BPS, 2003).

As a consequence, Rachbini (1996) stated that the younger generation graduating from the best universities in Indonesia at the moment is reluctant to enter the civil service. As a result, in future the quality of human resources in the government sector will not be able to balance the quality of human resources in the private sector. Rachbini (1996) added that a further consequence is that the potential employees tend to quit from government institutions and those who are not potential employees tend to depend on bureaucracy to compensate for their lack of skills. This dependency is the safest way to survive, even though their productivity is very low.

The prevailing conditions in government institutions are not the same as those generally found in private institutions in Indonesia. In private institutions, the employee and employer have respective positions and rights. Neither party is superior to or has more rights than the other party. If one of the parties does not agree with the requirements requested by the other party, then a contract will not be made. Besides, an employee in a

private institution may take a dispute with the work provider forward to the courts, or he/she may also take it forward through a mediator such as a trade union.

It is to be noted that the conditions in the government institutions are different from those in private institutions. In the relationship between the government employee and the government agency, there are two parties whose position and rights cannot be equalised. The position of a government agency is deemed higher than an ordinary person, because a government agency can make a regulation that is binding to or enforced upon an ordinary person. In view of this, the provisions regulating a work agreement are also determined unilaterally, namely by the government agencies themselves, without prior negotiation or agreement with the persons concerned. In addition, the changes of the provisions that will be made later on are determined by the government agencies themselves without prior negotiation or agreement.

Even if a civil servant has a dispute concerning his/her work requirements with the government department and institution as work provider, then he/she cannot forward his/her dispute to a judicial agency in this country. Every civil servant has to carry out the actions as instructed to him/her without prior discussion about whether or not the action is right, or whether or not the action is included in his/her assignment as stipulated in the work agreement. Work in the public interest will not proceed smoothly if every action, whether planned or not, must first be discussed with the employees and their agreement obtained. Therefore, trade unions in the government agency or department have no significant role in the activities of the government agency. Furthermore, even the state does not manage the civil servants (PNS), according to the Law of the Republic of Indonesia No.13 Year 2003 on manpower. The civil service has its own law. According to Government Regulation No.32 year 1979, the age limit for

civil servants is 56. In general, physically, at 56, one cannot do one's duties effectively and efficiently. On the other hand, for certain positions, this age limit is raised to 65 after considering the health of the individual.

5.6. Chapter Summary

Indonesia is situated on a crossroads between two oceans, the Pacific and the Indian, and bridges two continents, Asia and Australia. This strategic position has always influenced the cultural, social, political, and economic life of the country. Like the other Asian countries, this chapter concluded that Indonesia is a highly cultural country with a rich and diverse mix of traditional cultures and art forms. Compared to Western business systems, Asian, including Indonesian, business systems reflect a much higher commitment to personal relationships and trust, rather than principals of formal-legal rational authority. This chapter also found that the Indonesian people have been inspired by the concepts of mutual assistance (gotong royong) and communal meetings and gatherings (musyawarah) to arrive at a consensus (mufakat). This system is still very much in use in community life throughout the country. Further detail about the Indonesian environment can be found in Appendix 5.2 at the end of this thesis.

This thesis continues in the next chapter by providing an explanation of the research methodology used in this study. Research methodology is an important factor to guide the researcher when undertaking data collection during fieldwork.

RESEARCH METHODOLOGY

6.1. Introduction

This chapter discusses research methods and methodology and provides a justification for the choice of the research approach adopted by the author. This chapter examines the different paradigms within which management research can be located, and then explores the different research methodologies and methods. In particular, the chapter examines the differences between two paradigms, which are positivism and interpretive paradigms. It also identifies and contrasts the two kinds of evidence that may be collected for research into business and management studies, which are qualitative and quantitative; it also identifies the importance and the major criticisms of the case study approach as a research strategy. The chapter further relates all of the above issues to the author's research.

The issue of research methods and methodology has been extensively discussed in the literature (Saunders et al., 1997). It is important that at the beginning of any research work, researchers should decide on an appropriate starting point for the research (Remenyi, 1998), and on the conceptual framework or research strategy within which the evidence will be collected (Saunders et al., 1997). These would include decisions to use either a qualitative or quantitative approach as a tool to collect the evidence and to decide whether to take a positivistic or a non-positivistic approach. The approach adopted to investigate a particular phenomenon therefore determines the quality of the research (Gummesson, 2000). As a result, a researcher should take decisions about the strategy and methods to be used before the research begins. Research methods and methodology are therefore paramount for the outcome of any particular research.

To address the main objectives set out, this chapter is divided into several sections. A general discussion of research methodology is provided after the introduction, followed by a section on two main paradigmatic assumptions (positivism versus interpretivism). The next section provides a discussion on qualitative and quantitative research methodologies. Following this, a discussion of research methods is provided. This is then linked with a discussion of the use of a case study as a research method, followed by the justification for the choice of a case study approach as the author's research method in this research. The final part of this chapter provides a conclusion.

6.2. Paradigmatic Assumptions

There are three main paradigmatic assumptions which are prominent in contemporary social research (Guba and Lincoln, 1998; Locke et al., 1998; Ratcliff, 2002): these are positivism, interpretivism and critical theory. Each paradigm contains research methods that are useful in different settings and for different purposes, and that must be compatible with the goals of the research and the researcher.

This section will briefly review these paradigmatic assumptions since they significantly influence the choice of a research method. The review of the assumptions will focus on positivism and interpretivism, as the thesis is located within the interpretivism paradigm. Both interpretivism and critical theory have similar philosophical assumptions in that they both assume a subjective social world (Guba and Lincoln, 1998; Locke et al., 1998; Christie et al., 2000) and the active nature of human agents to change the world in which they live (Myers, 1996; Guba and Lincoln, 1998; Christie et al., 2000).

Positivism has become an important approach in social research. Easterby-Smith et al. (1991) argued that there are two key ideas about the positivistic paradigm, which are: firstly, reality is external and objective, and secondly, knowledge is only of significance if it is based on observations of external reality. Furthermore, Gephart (1999) noted that positivism assumes an objective world which scientific methods can more or less readily represent and measure, and it seeks to predict and explain causal relations among key variables.

Positivist approaches to management research are heavily associated with quantitative measures (Bryman, 1989; Johnson and Duberley, 2000) and are deductive in nature by putting forward hypotheses, collecting data, testing the hypotheses, and then drawing

conclusions (Gummenson, 2000). The major strengths of the positivistic paradigm have been identified by Easterby-Smith et al. (1997). Positivism can provide wide coverage of a range of situations; it is fast and economical; and, particularly when statistics are aggregated from large samples, the paradigm may be of considerable relevance to policy decisions.

The positivistic paradigm has, however, been criticised by several authors (Gill and Johnson, 1997; Vidich and Lyman, 1998). Gill and Johnson (1997), for instance, noted that it is impossible to treat people as being separate from their social contexts and they cannot be understood without examining the perceptions they have of their own activities, an assumption positivism ignores. Secondly, a highly structured research design imposes certain constraints on the result and may ignore more relevant and interesting findings. Thirdly, researchers are not objective, but part of what they observe: they bring their own interests and values to the research, and this is ignored by positivism. Finally, capturing complex phenomena in a single measure is, at best, misleading. It is impossible to measure a person's behaviour with a numerical value, as is normally undertaken in positivistic research.

Interpretivism and critical theory attempt to address the major limitations of positivism. The interpretive paradigm has been referred to as "constructivism" (Guba and Lincoln, 1989; Gephart, 1999; Robson, 2002). Interpretivism is concerned with exploring the meanings that social members apply to a particular situation (Schwandt, 1994; Gephart 1999). Based on the work of Schutz (1973), Gephart (1999) argued that interpretivism involves building a second order theory, or a theory of members' theories, in contrast to positivism, which is concerned with objective reality and meanings thought to be independent of people. Interpretivists argue that the social world can only be described,

interpreted and understood from the perspective of its participants (Bryman, 1989; Keedy, 1992; Poulymenakou and Cornford, 1996).

According to Shipman (1997), the aim of the interpretive researcher remains descriptive, to generate theory and to guide policy and practice. The intention of an interpretivist is not to test theory but to develop it from observations in the field (Shipman, 1997; Guba and Lincoln, 1998). Interpretive researchers compare several data sets from interviews, observations, and artefacts to arrive at a plausible interpretation of events and interactions (Keedy, 1992).

The aims of the positivist, to uncover truths and facts using experimental or survey methods, have been challenged by interpretivist researchers who assert that these methods impose a view of the world on subjects rather than capturing, describing and understanding these world views (Cantrell, 1989; Gephart, 1999).

Some researchers (for example Maxwell, 1996) argue that the interpretivist paradigm has the potential to produce the most valid conclusions by attaining the deepest understanding of the problem in its context. Interpretive research helps to understand human thought and action in a social and organisational context: it enables an understanding of an organisation's culture and of particular interest in this thesis, the use of accounting policy in the organisation to be understood in its proper context (Abdul-Rahman and Goddard, 1998).

The interpretive approach is more suitable to this research because it explores complex social phenomena that require working people and real-life experiences and where the

researcher seeks to understand the research problem by reflecting, probing, understanding and revising meanings, structures and issues (Christie et al., 2000).

6.3. Research Methodology

Methodology is defined as “the philosophy of the research process that includes the assumption and values that serve as a rationale for research and the standards or criteria the researcher uses for interpreting data and research conclusion” (<http://wizard.ucr.edu/~kmcneill/methods.htm>). Shipman (1997) argued that in methodology, the focus is on the logic of using the methods selected.

An understanding of methodological issues is an important part of a research study, as noted by Gephart (1999, from internet article) in the following context:

“Better understanding of methodological issues may encourage improved research practises by fostering consistency between the underlying assumptions, theories and knowledge production activities of management and organisational researchers.”

Traditionally, there are two types of research methodology, which are qualitative and quantitative. Table 6.1 below presents the differences between a quantitative and qualitative approach. Remenyi et al. (1998) argued that it is very important to understand and to contrast them as evidence that may be collected. Only through understanding the strengths and weaknesses of qualitative and quantitative approaches can adequate research be designed.

<i>Quantitative Research</i>	<i>Qualitative Research</i>
Activities	
i) Counts occurrences across a large population	a) Looks deep into the quality of social life
ii) Uses statistics and replicability to validate generalisation from survey samples and experiments	b) Locates the study within particular settings which provide opportunities for exploring all possible social variables; and sets manageable boundaries
iii) Attempts to reduce contaminating social variables	c) Initial foray into the social setting leads to further, more informed exploration as themes and focuses emerge
Beliefs	
iv) Conviction about what it is important to look for	d) Conviction that what it is important to look for will emerge
v) Confidence in established research instruments	e) Confidence in an ability to devise research procedures to fit the situation and the nature of the people in it, as they are revealed
vi) Reality is not so problematic if the research instruments are adequate and conclusive results are feasible	f) Reality contains mysteries to which the researcher must submit, and can do no more than interpret
Steps	
vii) First decide the research focus (e.g. testing a specific hypothesis)	g) Decide the subject is interesting (e.g. in its own right, or because it represents an area of interest)
viii) then devise research instruments (e.g. survey questionnaire or experiment)	h) Explore the subject
ix) then approach the subject	i) Let focus and themes emerge
	j) Devise research instruments during process (e.g. observation or interview)
Rigour	
x) Disciplined application of established rules for statistics, experiment and survey design	k) Principled development of research strategy to suit the scenario being studied as it is revealed

Table 6.1. The differences between Quantitative and Qualitative approach.

Source: Holiday (2002) *p.6*

However, even though each approach has strengths and weaknesses, this does not mean that one is superior to the other. A methodology should be used where it is appropriate with the research aim. Many researchers, including Denzin and Lincoln (1998) and Johnson and Duberley (2000), identified the increasing acceptance of qualitative methods. This statement is supported by the dramatic increase in qualitative research publications and the publication of numerous books on the qualitative research approach.

6.3.1. Quantitative Research

Quantitative research analysis refers to numbers and statistics. In quantitative research, the researchers classify features, count the research subjects, and even use mathematical

models, more complex statistical models, and graphs in an attempt to explain what is observed (Denzin and Lincoln, 1998; Remenyi et al. 1998). Quantitative research analysis applies a deductive approach which is characteristic of the traditional scientific method (Maykut and Morehouse, 1994; Lee, 1999). It generates hypotheses from theoretical assumptions at the beginning of the study, indicating the relevant data to be collected (the variables), and analyses and tests them against empirical observation (data) to determine whether the hypotheses have been confirmed or disconfirmed (Maykut and Morehouse, 1994; Otley and Berry, 1998). Quantitative research is neither appropriate nor cost effective for learning why people act or think as they do. The picture of the data which emerges from a quantitative approach is less rich descriptively than that obtained from a qualitative approach.

Quantitative methods are considered superior to qualitative approaches in achieving generalisability due to the naturalistic settings and limited number of cases utilised in qualitative research (Johnson and Duberley, 2000). Bryman (1995) argued that investigation using a quantitative research methodological approach should be capable of replication, which means that it should be possible for a researcher to employ the same procedures as those used in another study to check the validity of the initial investigation. Even though the collection of large volumes of data can be a strength of the quantitative methodology, the quantitative researchers can, however, become swamped because the analysis could be driven towards too much complexity, since the study could involve too many cases, too many variables, and could consider too many factors (Maykut and Morehouse, 1994). According to Denzin and Lincoln (1998), quantitative researchers are seldom able to capture the subject's perspective because they have to rely on more remote, inferential, empirical materials.

6.3.2. Qualitative Research

Miles and Huberman (1994), Marshall and Rosmann (1995), Maxwell (1996), and Lee (1999) concluded that qualitative research is the methodology to use to answer questions of description, interpretation, and explanation, and most often from the perspective of the organisational member under study, but it seems poorly suited to the investigation of issues of a phenomenon's prevalence, generalisability, or calibration. Van Maanen (1983, p. 9) defines qualitative research as *an array of interpretive techniques which seek to describe, decode, translate, and otherwise come to terms with the meaning, not the frequency, of certain more or less naturally occurring phenomena in the social world* (cited from Easterby-Smith et al., 1997, p.70).

Hakim (1987, p.26) defines qualitative research as follow:

Qualitative research is concerned with individuals' own account of their attitudes motivations and behaviour. It offers richly descriptive reports of individuals' perceptions, attitudes, beliefs, views and feelings, the meanings and interpretations given to events and things, as well as their behaviour; displays how these are put together, more or less coherently and consciously, into frameworks which make sense of their experiences; and illuminates the motivations which connect attitudes and behaviour, the discontinuities, or even contradictions, between attitudes and behaviour, or how conflicting attitudes and motivations are resolved in particular choices' made.

Atkinson and Shaffir (1998) argued that qualitative research is about observing events in their natural setting and reporting them in a systematic way. The qualitative research approach refers to the meanings, concepts, definitions, characteristics, metaphors, symbols, and descriptions of the research subjects (Berg, 1998). It allows for fine distinctions to be drawn because it is not necessary to turn the data into a finite number of classifications.

Studies from Maykut and Morehouse (1994) and Lee (1999) found that qualitative research often uses an inductive approach for data analysis. Inductive methods consist

of making generalisations from observations resulting in theoretical statements which attempt to explain the occurrence of the observed phenomena (Maykut and Morehouse, 1994; Lee, 1999). Consequently, in a qualitative research approach, theoretical reflection tends to occur during or towards the end of the data collection process rather than at the outset. Marshall and Rossman (1999, p.61) argued that in qualitative research, there are three distinct strategies as follow:

“Firstly, a research focusing on individual lived experience typically relies on an in-depth interviews strategy or other forms of data in order to capture the deep meaning of experience in their words; secondly, a study that focused on society and culture including a group, a program, or an organisation, typically espouse some form of case study as an overall strategy; and finally, research in language and communication typically involves micro analysis through which speech events and subtle interactions are recorded and then analysed.”

Qualitative research itself has four major methods, which are: observation; analysing texts and documents; interview; recording and transcribing (discussed later in the chapter). To conduct organisational research from a qualitative perspective, the researcher can use the two most prominent methods of data collection, such as participant observation and unstructured or semi-structured interviewing (Bryman, 1995). Unstructured or semi-structured interviewing is used in order to understand the individual's experience from his or her perspectives and interpretation. Using observation and interview as methods of data collection gives qualitative researchers the opportunity to get depth and detail data about a phenomenon (Ratcliff, 2002).

Validity of the data obtained is one of the strengths of qualitative research, since individuals are interviewed in sufficient detail for the results to be taken as true, correct, complete and believable reports of their views and experiences (Hakim, 1989). Moreover, qualitative research is most valuable in exploratory studies, where the

relationship between the events in question and their environment is not well understood (Atkinson and Shaffir, 1998).

With a relatively small number of individuals or situations, qualitative research allows the researcher or interviewer to maintain a close association with their respondents. It gives the chance for further discussion between the researcher and respondents to obtain in-depth research issues and yields great detail in response. Unfortunately, the small number of individuals or situations involved in qualitative research make it difficult to take the result as representative, even if great care is taken to choose a fair cross section of the type of individuals who are the subjects of the study (Hakim, 1989; Maykut and Morehouse, 1994). In other words, in qualitative research the result cannot be generalised to other people in other situations.

Berg (1998) and Burns (2000) recognised one of the disadvantages of the use of a qualitative approach in research, which is the time required for data collection, analysis and interpretation. Qualitative researchers should know when to stop the data collection in order to prevent the research going too far beyond the boundaries of the research. In order to decide when to stop the data collection, the researchers must take into account the research goals, the need to achieve depth through triangulation of data sources, and the possibility of greater breadth through examination of a variety of sampling sites (Hoepfl, 1997).

6.4. Research Strategy (Case Study)

According to Denscombe (1998), case study research is a matter of research strategy, not a method for collecting data. Case studies appear in a variety of guises, across many disciplines, both basic and applied. Case study research is becoming increasingly

accepted as a scientific tool for research in the management and business area, including general management, organisation, and accounting (Gummesson, 2000).

This study will use a case study approach. As a result, this section will identify and discuss the benefits and limitations of such an approach. Later in the chapter, a justification for using a case study approach in this study is provided. Yin (1994, pp. 13 – 14) noted that a case study is an empirical enquiry which:

- Investigates a contemporary phenomenon within its real-life context; especially when
- the boundaries between phenomenon and context are not clearly evident; and in which
- case study research can include both single and multiple case studies.

A case study approach is used in many separate disciplines. Hakim (1989) and Yin (1994) argued that a case study as a research strategy could be used for research on organisations and institutions in both the private and public sectors, organisational and management studies, processes of change and adaptation, policy implementation and valuation, political science, bureaucracies, industrial relations, workplaces, and the conduct of dissertations and theses in the social sciences, including professional business such as business administration, management science, and social work.

The case study approach is appropriate when investigators desire to gain a rich understanding of the topics of the research and rely on multiple sources of evidence (Yin, 1993; Saunders et al., 1997). The variety of data collection may include interviews, observation, documentary analysis and questionnaires. Investigators/researchers use the case study approach in order to generate answers to the

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questions “Why?”, “What?”, and “How?” (Saunders et al., 1997). A case study can be used to accomplish various research aims, such as to provide descriptions of phenomena, to test theory or to generate/develop theory.

Case study research can involve either single or multiple cases, and numerous levels of analysis. Multiple case designs that can be limited to two or dozens of cases are used either to achieve replication of the same study in different settings or to compare and contrast different cases (Hakim, 1989). In relation to this study's topic, the use of a case study has also been applied Baldrige (1971) to study power and conflict in New York University (NYU).

Yin (1994) recommends 5 phases of research in a case study approach:

- Problem or research questions definition
- Select case study's design
- Data collection
- Analysing case study evidence
- Composition and reporting

6.4.1. Strengths and Weaknesses of Case Studies

The case study approach is a comparatively flexible method of scientific research. Because its project designs seem to emphasise exploration rather than prescription or prediction, researchers are comparatively freer to discover and address issues as they arise in their experiments.

Researchers have identified the strengths of the use a case study approach. Firstly, a case study gives an opportunity for in-depth enquiry (Remenyi et al., 1998; Marshall and Rossman, 1999). To get a deeper understanding in the research, a researcher needs

not to study a large number of cases. By seeking to understand as much as possible about a single subject or a small group of subjects, case studies specialise in in-depth data. The depth of enquiry that is offered by the case study method is significantly greater than other research methods, such as: survey, focus groups, experiments and analysis of archival evidence (Remenyi et al., 1998). The superiority of the case study over other research methods has been stated by Remenyi et al., (1998, p.167) as follows:

... although attempts are sometimes made to ascertain attitudes by means of questionnaires, the results are often unsatisfactory as one cannot do justice to the complexity of an attitude by ticking Yes or No or rating 1 to 5. Such methods of evidence collection that reduce responses to a scale of binary choices lose much of the richness of the circumstances or context being studied. As a general rule questionnaires alone are increasingly regarded as inadequate in providing the type of evidence for a doctorate in business and management studies.

Secondly, theory developed from case study research is likely to have important strengths, such as it generates novel theory, the emergent theory is likely to be testable, and the resultant theory is likely to be empirically valid, which arise from the intimate linkage with empirical evidence (Eisenhardt, 1989, pp. 546 – 549).

Thirdly, Otley and Berry (1998) argued that even though case studies have a number of potential roles to play, the central role seems to be that of exploration. They argued that the idea of an exploratory case study goes beyond that of mere description towards explanation. An exploratory study is used when not much is known about the situation, or when no information is available on how similar problems or research issues have been solved in the past (Sekaran, 2000). In addition, the case study approach allows the use of a variety of research methods and multiple sources of data, which facilitates the validation of data (Denscombe, 1998).

In spite of the strengths of the case study identified above, its weaknesses also need to be highlighted. Otley and Berry (1998), for instance, argued that case study observations and explanations lack generalisability. The lack of generalisability is caused by the limited number of observations, especially when the case is based on a single subject or small group of subjects. Ijiri (1972) argued that it is more difficult to make generalisations in case research in accounting because accounting phenomena are much more heterogeneous than phenomena in the natural sciences. Researchers believe that one way to enhance generalisability is to increase the number of observations. However, Walsham (1995) and Rolland and Herstad (2000) believe that interpretive case studies can be generalised through the concepts of development, theory generation, giving specific implications, and giving rich insight.

The second problem of case study research identified in the literature (Yin, 1989; Atkinson and Shaffir, 1998; Otley and Berry, 1998; Remenyi et al., 1998) is the lack of reliability and validity. Otley and Berry (1998) criticise case study research as studies that have interesting descriptions but unconvincing results and conclusions. Some researchers (such as Remenyi et al., 1998) believe that the use of a case study brings problem of subjectivity and bias to the researchers (e.g. problems analysing and reading evidence).

Atkinson and Shaffir (1998) and Remenyi et al. (1998) identified some of these problems as: firstly, the difficulties encountered by individuals in their being able to recall events accurately; secondly, the difficulty individuals have in disclosing important feelings for some reason, for example, due to the desire of the subject to be helpful to the researcher by telling him what they think he wants to hear; and finally, the suspicion individuals have about revealing information that might reflect poorly on

themselves or their superiors. These issues could prevent the researcher from getting the further information from the organisation that is needed for the study.

However, Atkinson and Shaffir (1998, pp. 60 – 61) recommended four common strategies that could be used to enhance construct validity, which are: firstly, identify clearly the preliminary hypothesis and the background or training that the researcher has taken into the study to allow the reader to infer or anticipate what potential observation biases may have been introduced; secondly, identify clearly the mode of observation to allow the reader to infer or anticipate how the observer may have influenced the process either through the act of observation itself or by participating in the process; thirdly, develop alternative measures for the same phenomenon and show that both sets of data imply the same conclusions, a form of triangulation; and finally, show evidence of the result of having the observed review of the material for accuracy and reasonableness.

The third problem with case studies is the difficulty in defining the boundaries of the study. With regard to the questions in this thesis a researcher should consider the issue of how far the management control system to the larger organisational practices and how far the historical analysis of the control system should go back. Apart from that, a case study-based researcher should also consider the amount of time available for the study. Data collection for case study research can be quite time consuming. Otley and Berry (1998) concluded that since lengthy periods of time are needed to conduct case-based research, the subjects or data being observed might also have changed during the course of the study.

6.4.2. Case Study Approach in MCS Research

The area of research interest in this study is the management accounting system and control of organisational activities. The research uses a case study approach to explore

changes in the management accounting systems in two different universities / organisations after deregulation.

A study from Otley and Berry (1998, p.S106) concluded that one reason for adopting a case-based approach in the study of accounting control is that the role of accounting and other controls cannot be fully understood in isolation, and that a more contextual approach is required. They also recommended a case-based approach to develop an understanding of the relative role of accounting and other controls in the management of organisational performance for the following reason:

... two distinct aspects to the use of accounting information in organisations. First, it is used to monitor financial aspects of performance, an activity that might conveniently be labelled financial control. Second, accounting information is also used as a surrogate measure by which operational activities may be monitored and controlled. This activity can be labelled management control. From the latter perspective accounting information provides a window through which the real activities of the organisation may be monitored, but it should be noted also that other windows are used that do not rely upon accounting information. Thus, in order to assess and evaluate the operation of management accounting and control systems, it is necessary to place them in their wider context. (p.106)

Hence, although the case study has some limitations, as has been discussed in the previous section, a case study approach is adopted in this study because it is consistent with the aim of this research, to explore and describe (explain) the reason for the change of management control systems in the case study organisations.

The use of exploratory research gives an opportunity to investigate phenomena that are not well understood, such as the activities of management accounting and control systems in Indonesian organisations. These exploratory and explanatory opportunities that are offered by a case study approach would not have been found in the other approaches.

Because of the strengths offered by the case study approach, many researchers in the management accounting systems and control field have used the case study method to conduct their research. Examples of the use of a case study as a research approach within management accounting systems and control are Knight and Weigenstein, (1993), Modell (1996), Abernethy and Brownell (1999), Jazayeri and Hooper (1999), Marginson (1999), Brignall and Modell (2000), Lind (2001), Uddin and Hopper (2001), and Wickramasinghe and Hopper (2005).

This study adopts a multiple case design with two universities to be researched. This will allow for cross-case analysis and comparison, and the investigation of a particular phenomenon in diverse settings (Darke et al., 1998). The multiple case used in this study strengthens the result by replicating the pattern matching, thus increasing confidence in the robustness of the theory (Tellis, 1997). Using two universities in this study allows the researcher to investigate the subjects in depth to provide a rich description and understanding.

The study will collect empirical data from multiple sources, including field research, such as interviews and observations, and documentary analysis in order to generate a rich source of field data with internal checks on its validity. The reason for the use of qualitative methodology, such as interviews and observation, to collect data is based on the view of Atkinson and Shaffir (1998), that:

"In contrast to the natural science approach to the study of human behaviour, qualitative methodology recognises that human behaviour cannot be adequately understood by observing it from outside. Instead, and in line with the phenomenological perspective, social phenomena are best understood from the actor's own perspective. Human beings are symbol manipulators and it is incumbent on the researcher to understand the symbols, their meaning and how they are manipulated. Such understanding could be achieved through qualitative methods such as field research – participant observation, informal reviewing, and others that yield descriptive data." (p. 43)

In addition, the use of interviews allows a more personal interaction between the interviewer and respondent, and gives the researcher an opportunity to probe or ask follow-up questions, which will help the researcher to explore in depth the activities of the management accounting systems and control in the organisations. Using other methods, such as a survey, would prevent the researcher from getting an in-depth understanding of the management accounting systems and control in the organisations since other methods do not permit an in-depth investigation. Another source of data will be a document search, including university reports, brochures, and other documents. The use of these documents will help the researcher to ensure that the interview data is analysed in context and will provide another source of data for comparison.

6.5. Case Research Method

The research method is the research technique or tool used to gather data. There are typically six major sources of data, which can all be used in a case study, such as documents, archival records, interviews, direct observations, participant observations, and physical artefacts (Yin, 1994).

Interviews allow the researcher to gather descriptive information with the subject's own interpretations/words (Hoepfl, 1997). Using direct or participant observation by making a field visit to the phenomena site, the researcher has an opportunity to get direct experience with the phenomena (Yin, 1994; Hoepfl, 1997). Documentation refers to "paper" data (Hoepfl, 1997) that come from the following variety of documents: letters, administrative documents, textbooks, journals, articles from mass media, agendas, policy documents, and other similar items (Yin, 1994; Hoepfl, 1997; Robson, 2002). Moreover, according to Yin (1994), "paper" data may also come from archival records, often in computerised form, that consist of service records, organisational records, maps

and charts, survey data, and personal records. Finally, physical or cultural artefacts are used extensively in anthropological research as a source of evidence, from a tool or instrument, a technological device, a work of art, or other physical evidence (Yin, 1994).

However, each method has different strengths and weaknesses (see Table 6.2. below). Hence, the use of multiple sources of evidence (triangulation) in case studies is likely to increase the reliability and validity of the data (Yin, 1994). The evidence from a case study may be qualitative (which uses descriptions and words), quantitative (which uses numbers and statistics), or both (Yin, 1994, p. 14).

<i>Source of Evidence</i>	<i>Strengths</i>	<i>Weaknesses</i>
Documentation	<ul style="list-style-type: none"> ➤ Stable – Can be reviewed repeatedly ➤ Unobtrusive – not created as a result of the case study ➤ Exact – contains exact names, references, and details of an event ➤ Broad coverage – long span of time, many events, and many settings 	<ul style="list-style-type: none"> ➤ retrievability – can be low ➤ biased selectivity, if collection is incomplete ➤ reporting bias – reflects (unknown) bias of author ➤ access – may be deliberately blocked
Archival Records	<ul style="list-style-type: none"> ➤ (same as above for documentation) ➤ precise and quantitative 	<ul style="list-style-type: none"> ➤ (same as above for documentation) ➤ accessibility due to privacy reasons
Interviews	<ul style="list-style-type: none"> ➤ targeted – focuses directly on case study topic ➤ insightful – provides perceived causal inferences 	<ul style="list-style-type: none"> ➤ bias due to poorly constructed question ➤ response bias ➤ inaccuracies due to poor recall ➤ reflexivity – interviewee gives what interviewer wants to hear
Direct observations	<ul style="list-style-type: none"> ➤ reality – covers events in real time ➤ contextual – covers context of event 	<ul style="list-style-type: none"> ➤ time – consuming ➤ selectivity – unless broad coverage ➤ reflexivity – event may proceed differently because it is being observed ➤ cost – hours needed by human observers
Participant Observation	<ul style="list-style-type: none"> ➤ [Same as above for direct observations] ➤ Insightful into interpersonal behaviour and motives 	<ul style="list-style-type: none"> ➤ [Same as above for direct observations] ➤ bias due to investigator's manipulation of events
Physical Artefacts	<ul style="list-style-type: none"> ➤ Insightful into cultural features ➤ Insightful into technical operations 	<ul style="list-style-type: none"> ➤ Selectivity ➤ Availability

Table 6.2: Strengths and weaknesses of case study data collection
Source: YIN, K. (1994, pp.80)

The choice of the use of data collection methods is determined partly by the topic itself, partly by the discipline of the researcher and partly by the issue of timeliness, the cost involved, concerns with response rates and the other resources available.

A study by Otley and Berry (1998) find that the four case studies²³ they reviewed have a similarity in the methods of data collection adopted, which are: the extensive use of documentary evidence concerning formal control systems design and use; the use of semi-structured interviews with managers, generally at levels both above and below the level of central interest, and the observation of meetings wherever possible; collection of information on the external context in which the university operates; the use of questionnaires at a late stage in the research process to try to gain assurance that the phenomena reported upon were prevalent throughout the organisation.

6.5.1. Interviews

The study will use the two most prominent methods of data collection, namely unstructured or semi-structured interviewing, and documents / archival records, which will allow the researcher to undertake an in-depth investigation of the topic. Unstructured or semi-structured interviewing is used in order to understand the individual's experience from his or her perspectives and interpretation. Using the interview as a method of data collection gives the researcher an opportunity to obtain deep and detailed data about a phenomenon (Ratcliff, 2002).

With the relatively small number of individuals and situations used in this study, the researcher or interviewer can maintain close associations with his respondents. The high personal interaction between the interviewer and the respondent would give the

²³ Examples of case studies: Otley (1990), Berry, Laughton, and Otley (1991), Archer and Otley (1991) Knight and Weigenstein (1993)

researcher opportunities to probe or ask follow-up questions, which will help explore in-depth the operations of the management accounting control systems in their organisational context. However, the small sample makes it difficult to take the results as representative, even if great care is taken to choose a fair cross-section of the type of individuals who are the subjects of the study (Maykut and Morehouse, 1994). While, using a survey method, for instance, would not allow the researcher gain an in-depth understanding of the dynamics of the management accounting control systems, since surveys do not permit in-depth investigation.

In this study, interviews have been conducted with managers and employees from accounting and non-accounting departments as well as at different managerial levels in the two studied universities. The decision to interview both accounting and non-accounting managers and managers at different levels was taken to provide a broader understanding of the MCS. Though the accounting department is likely to be involved in preparing management accounting reports, these reports would be used by non-accounting managers as well. It is therefore important to obtain the views of both those who prepare and those who use the management accounting information.

Managers have been asked diverse questions, including the types of management accounting control systems they have, how these systems support day-to-day decision making, any perceived changes in the MCS over the years, and possible factors that have influenced the operation of the MCS. To encourage the respondents to participate in this study, the researcher used some personal approaches to the correspondents. First, the researcher guaranteed the confidentiality and anonymity of the respondents. Second, the researcher also explained to the correspondents about his identity, the purpose of the

interview, and the importance of the study for the institutions and Indonesian education environment.

A tape recorder was used to record interviews with some of correspondents that agreed to this. For the other correspondents who did not feel comfortable with the use of a tape recorder during the interview, the researcher only took notes during the interview. The interview questions were divided into sections, which were:

1. Three questions examining how formal and informal types of control operated in the organisations, both before and after autonomy. The first question asked the managers how management control activities operated in the university as a formal procedure before and after the autonomous status was granted. The second question asked the managers to describe the use of informal controls in the organisation's management process before and after the autonomous status was granted. The third question asked managers to give example(s) of how their decisions in managing their units had been affected by the status change of the university.
2. Five questions examined the issue of the power and influence of different parties in the organisation's management process. The first question asked the influence of the managers in the organisation's management process before and after the change of the organisation's status. The second question asked the managers to describe the influence or power of the board of trustees as shareholders' representatives in order to decide the organisation's management process before and after the autonomous status was granted. The third question asked the managers to describe the influence or power of the lower level managers in order to decide the organisation's management process before and after the autonomous status was granted. The fourth question asked the managers to describe the influence or power of the government in order to decide the organisation's management process before and after the

Research Methodology

autonomous status was granted. The fifth question asked the managers to describe the influence or power of the lower level managers in order to decide the organisation's management process before and after the autonomous status was granted.

3. One question asked the managers to describe the influence of some factors (such as: change in the organisation's status, economic situation, competition, professional bodies, educational institutions, technology, culture, consultancy industry, regulation and legislation, and the other organisations) on the organisation's operation and management control system.

6.5.2. Documentary / Archival Records

In addition to the above method, information was obtained from documentary or archival records. Documentation refers to "paper" data that can come from the following variety of documents: letters, administrative documents, textbooks, journals, items from mass media, agendas, policy documents, and other similar items (Yin, 1994; Hoepfl, 1997). The research involved a review of relevant internal and external documents such, as Indonesian law and regulations. This study will describe much about the Indonesian laws and regulations that influence the organisations' change.

The use of these documents will help the researcher to ensure that interview data is analysed in context, and will provide another source of data for comparison. A number of books were used in order to provide the background for the development of the theory and the arguments that are presented in the study. Magazines, journals, brochures, the Internet (e-mail, web sites, etc) provided information on recent developments in higher education deregulation activity and development of the theory.

6.5.3. Selection of Studied Organisations

The study focuses on two autonomous Indonesian universities. These organisations were selected based on the following criteria. Since the study discusses the MCS in autonomous universities, the main criterion in selection of the studied universities is that they have to be autonomous universities. A brief summary of the two studied organisations is provided in Table 6.3 below. The background of the organisations will be described in more detail in Chapter Eight.

<i>Organisation</i>	<i>Number of Alumni</i>	<i>Number of Lecturers</i>	<i>Number of Students</i>	<i>Year of Autonomy</i>	<i>Number of Admin Staff</i>	<i>Number of Faculties</i>
Ajar University	134,219 (Oct 2003)	2,266	55,000 (Sept 2003)	Year 2000	2,301	18 Faculties
Didik University	109,944 (Feb 2004)	2,434	35,326 (Sept 2002)	Year 2000	2,000	12 Faculties

Table 6.3 : Profile of the Studied Organisations

The use of only two universities is not considered a limitation since the researcher has considered some important issues. First, there were only two Indonesian autonomous universities at the time the researcher prepared the fieldwork questions and undertook the fieldwork. The universities were selected by the government to function as “guides” in Indonesia’s move toward greater academic and financial autonomy. The second issue of concern was with time: in this research, the researcher will deal with two big universities with thousands of employees, located in different cities separated by a trip by train of at least ten hours, so the researcher needs quite a long time to complete his research in the universities. The relatively short time available to conduct the field study led to the choice. With a six-month research period, the researcher has spent an average of three months in each organisation. The case study adopted here does not attempt to locate universal truths or generalisable theories that explain MCS practices. This study's aim was not to develop universal or generalisable theories of MCS but to explore the

process of MCS change. Focusing on the two organisations allows for an in-depth investigation of the research issue (Flamholtz, 1983).

Conducting a survey on a large sample of organisations and information users and generalising the findings will neither help to understand or explain how MCS operate and why certain patterns exists. Therefore, studying a limited number of cases may be more suitable to understanding the topics. Furthermore, the importance of the educational sectors in the development of the country was another motivation behind selecting the two universities from among the various sectors.

6.5.4. Selection of Participants

Overall, 43 people were selected from both organisations based on several criteria: firstly, the participants should have some knowledge or involvement in control systems before and /or after autonomy; secondly, they should be willing to participate in the study; thirdly, they should be senior or non-senior managers in accounting and non-accounting departments. The reason for this selection of participants was to provide a broader understanding of the MCS.

However, to support the study findings from the interview sections with managers, the researcher also interviewed some of the lower-level employees. Twenty two formal and five informal interviews were conducted in Ajar University, while twenty one formal and seven informal interviews has been done in Didik University over six months, each lasting between one and two hours. Table 6.4 below summarises the participants in this study.

Items	Ajar University	Didik University
Number of Faculties	18	12
Number of participating faculties	6	4
Percentage	30%	30%
Number of Senior Managers interviewed	2	2
Number of Middle Managers interviewed	11	11
Number of Junior Managers interviewed	9	8
Total Managers Interviewed	22	21
Informal Interview (with lower-level employees)	5	7
Total Persons Interviewed	27	28

Table 6.4: Research Participants

6.6. Chapter Summary

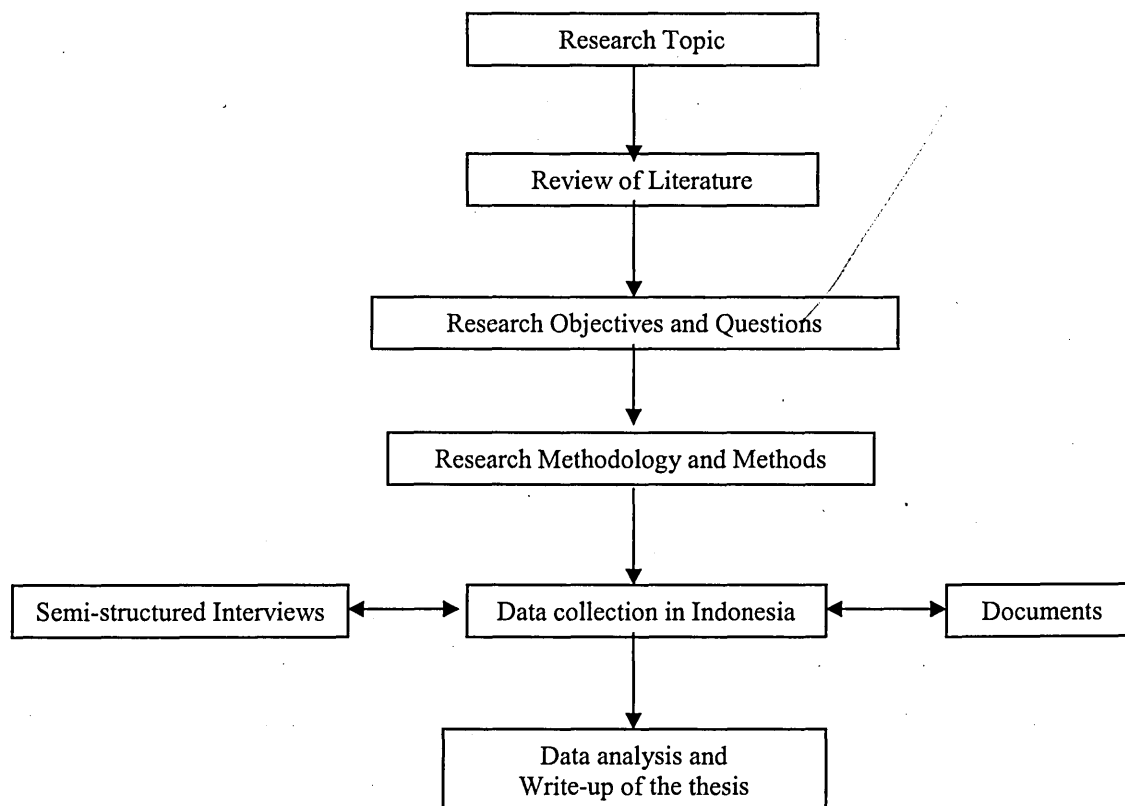


Figure 6.5: Research Stages

In summary, Figure 6.5. above illustrates that the study consists of five stages. The scheme above draws every stage of this study. The first stage of the study has focused on writing the literature review, and developing the theoretical framework for the study. At this stage, the researcher has reviewed the literature covering the fields of higher education sector deregulation and MCS. The theoretical framework which integrates

institutional isomorphism, competition isomorphism and power relation is developed at this stage. This is followed by developing research objectives and questions for this study.

The third phase of the research activity concludes with the research design and development of the research plan for the fieldwork in Indonesia. At this stage, the research instruments for the primary data collection have been developed and are currently being refined based on the advice of the supervision team. Data collection in fieldwork used semi-structured interviews and document analysis. After that, the research has concentrated on the fieldwork that focused on two autonomous state universities in Indonesia. The final phase of the research involves analysis of the field results and the subsequent writing up of the results.

The discussion above concluded that the reason for the choice of the research approaches used is that they are consistent with the aim of this research to explore and describe (explain) the reason for the change of management accounting systems in the case study organisations. The use of a case study gives an opportunity to explore and explain phenomena that are not well understood.

A qualitative researcher should, however, be aware of the following issues: firstly, the research process should be such that it is not too long, since subjects can change before the research is completed; secondly, the boundaries of the study should be defined; thirdly, ethical issues such as personal integrity, possible prejudices, and bias should be taken into consideration; fourthly, the skills of the researcher, such as questioning and listening skills, adaptability and flexibility, grasp of the issue, and lack of bias, should also be considered.

This chapter concludes that the study of MCS requires an in-depth case study approach capable of locating and capturing the complex relations between the management control systems and the wider environment. It is also concluded that although the case study method is limited in its ability to generalise findings, it is argued that this was not the intention or aim of the study.

In this study, the two studied universities have been chosen as the research site because it is expected that the organisations would provide rich and interesting data suitable for an equally interesting case study. As has been described in the chapter, this study uses data triangulation methods because this technique improves the validity and reliability of the research findings.

The next chapter provides an explanation of the higher education reforms in Indonesia and the research propositions.

CHANGES IN THE INSTITUTIONAL ENVIRONMENT AND RESEARCH PROPOSITIONS

7.1. Introduction

The purpose of this chapter is to present the institutional environment as a pressure for change in Indonesian higher education institutions. This analysis is necessary in order to provide an understanding of the context within which the management control systems are located. Data for the analysis presented in this chapter were obtained from interviews and documents. Further evidence was also gathered from semi-structured interviews conducted with the study participants in each organisation and informal discussions with employees of these organisations.

This chapter explains the background of Indonesian higher education and is organised into five major sections. After this introductory section, this chapter continues with an explanation of the higher education reforms in Indonesia, including the definition of autonomy in the context of Indonesian universities and the factors that influenced the Indonesian government's decision to reform the Indonesian universities. This section is followed by a description of the advantages of university autonomy. The next section consists of the propositions of this study, and the final part presents a general conclusion to the chapter.

7.2. University Reforms in Indonesia

When a university is given the right to autonomy, it is given the authority to manage itself. The status of State-Owned Legal Board (BHMN/Badan Hukum Milik Negara) is given in order that the university can manage itself without government intervention. Thus, services, responsibility, and competitiveness are able to increase with no bureaucratic hindrance. The acceptance of autonomy by universities presented the opportunity for a public university (PTN), which was a government institution, to become an independent administrative entity. In a deeper sense, Lee (2001) noted that reforming universities should be better understood as a move to restructuring the relationships between universities, the state / government, and society.

The formation of a State-Owned Legal Board (BHMN) involves three aspects of autonomy that require change: (a) financial or funding resources; (b) human resources or personnel system; and (c) organisation. Through autonomy, a university gained the independence to manage all of the aforementioned aspects. All of the freedoms were bestowed in order not to bind a university to the rigidity of various government bureaucracy, especially in terms of finance and employment. Furthermore, a participant commented on the status changes as follows:

"We can look at the status changes as "the basics needed to jump" to a better direction. As the changes occurred, we expected to be better organised in everything: well-organised in administration, in education execution, and so on."

The driving forces behind the changes is: increasingly severe global competition, community demand for the improvement of democracy in the nation state, the community's strong will to step towards a civil society, and the needs of institutes that play a role as a moral force in materialising the plan. Universities represent one of the institutions that have the capability to make a contribution, in addition to addressing the

need to balance the universities' functions in their participation in developing science through global communications and in keeping their identity, as history and national history are an intrinsic part of them (Directorate General of Higher Education, 1999).

By looking at the changes explained above, Tilaar (2000) and Chacha (2000) commented that a university needs to operate with the highest degree of freedom and autonomy to allow it to be an institution that has creative character, and it will then become a pioneer of change, both within the surrounding community and in scientific progress. Dlamini (1996, from internet article) explained this point further:

"Academic and institutional freedom is very important because it enables universities and other tertiary institutions to do their job of generating and disseminating knowledge and information effectively. That knowledge is for the benefit of society in general and not for a few individuals. This knowledge is aimed at improving the quality of life of all people, physically, economically, politically and even spiritually."

The process of changing the status of the studied universities from a public university (PTN) to a State-Owned Legal Board (BHMN) has such a long way to go because there are state institutions that are related to each other, namely: the Department of National Education with the Secretary of Cabinet, the Department of Finance, the Minister of State for State Apparatus Empowerment, and the National Development Planning Board (BAPPENAS). Each of the state institutions is bound by laws and legislation, which are different for each of them.

The issuance of the Government Regulations for the universities to become universities that are a State-Owned Legal Board (PT-BHMN) do not automatically mean that the universities will change as a whole in organisation and management. The changes will be undertaken systematically and carefully because they relate to academic staff and non-academic staff, who amount to around 5000 people, and they are connected to more

or less 40,000 students from any of the various education levels. Besides, the changes in the universities also relate to government institutions and laws and state legislations. Therefore, though autonomy was bestowed on the universities by the government in 2000, some parts of the university still cannot change.

7.3. Factors Influencing University Reforms in Indonesia

Several factors influence university reforms in Indonesia, such as: political issues in the country, globalisation that leads to competition, pressure from foreign donors, such as the International Monetary Fund (IMF) and World Bank (WB), pressure from the public, and the economic crisis that led to the country's financial problems. Figure 7.1 below identifies some of the factors that influence the higher education reforms in Indonesia. Some of the institutional forces identified in Figure 7.1 below are explained in the remainder of this section.

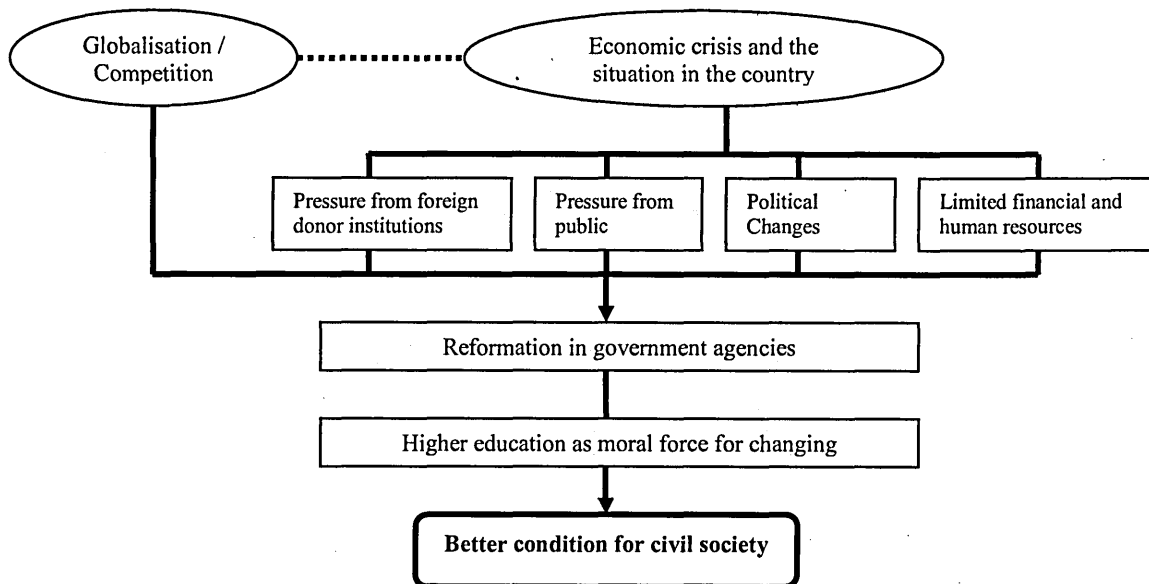


Fig 7.1 : Background of university autonomy in Indonesia

7.3.1. Globalisation / Competition

Globalisation means ferocious competition in almost all aspects. There are a number of reasons, one of which is a globalised world in which universities are under market

pressures in that they have to compete for the best students, resources, and become world renowned (Brodjonegoro, 1999). According to UNDP / United Nation Development Programme (2001), Indonesia is responding to the global economic situation by maintaining open regimes.

According to Brodjonegoro (2002), competition is an acknowledged central force in Indonesian higher education and is nurtured by many scholars. Indonesian universities experience a low quality of educational background. Table 7.2. below was shown that in 2000, out of 78 universities in Asia, all of the universities in Indonesia were below the rank of 60: Didik University was in 61st place, Ajar University in 68th, and University of Diponegoro (UNDIP) in 74th (according to ASIAWEEK, 2000). Considering this situation, the government attempted to discern the reason for it and it surmised that it was due to the large amount of government intervention, both in the curriculum and finance management, as well as in the appointment of lecturers. For instance, almost 80% of the curriculum was managed centrally.

University	Position			Note
	1998	1999	2000	
Didik University	55	70	61	1998: out of 61 universities 1999: out of 79 universities 2000: out of 77 universities Science and Technology Univ 1999: Out of 35 universities 2000: out of 39 universities
Ajar University	49	67	68	
Univ of Diponegoro	64	77	73	
Univ of Erlangga	61	79	75	
ITB	14	15	21	

Source: ASIAWEEK, 1998, 1999, 2000

Table 7.2: Position of Indonesian Universities in Asia and Australia

To illustrate the limited control the universities have in managing education, one of the Deputy Rectors of Ajar University stated in a newspaper (Jawapos, 25/10/2002):

“ All this time, though a number of universities have brilliant people, they are weak systematically because they are limited by government rules.”

However, he also added:

“Autonomy is one of the ways to attain quality learning, quality research and a high commitment to the community. Autonomy is one of the components for conducting improvements in management or improving quality. Due to autonomy, the university will develop in the management sector or in university management and other activities.”

As for regulation, the Indonesian government is moving towards allowing overseas universities to set up offshore campuses in Indonesia. Many prestigious universities from several countries, including the US, the UK, Germany, Japan, and the Netherlands, are collaborating with Indonesian universities to offer degree and non-degree programmes using an international education system and curriculum to compete with local universities. In addition, the competitive environment is allowing Indonesian industry to continue to develop and expand, and the domestic job market is becoming more and more competitive, leading to concerns over the low quality of national university graduates, who are perceived to be less marketable and have weaker bargaining power in the job market compared to those who have graduated from overseas universities in the United States, United Kingdom, Germany, Japan and France. Unemployment among the educated labour force continues to increase. To be able to compete, the Indonesian population has to be better educated than the populations of the competitors. In this case, public universities could be vital tools to help the country to benefit from globalisation (Bloom, 2002).

7.3.2. Political Pressure

Independence came in the rush of decolonisation after World War II, and was proclaimed on 17th August 1945.²⁴ Indonesia has faced unprecedented turmoil over the years, facing first the Asian financial crisis in 1997, then the fall of President Suharto after 32 years in office in 1998, the first free elections since the 1960s, the loss of East

²⁴ The country became ‘legally’ independent from the Netherlands on 27th December 1949

Timor, independence demands from restive provinces, bloody inter-ethnic and religious conflict, and unending corruption scandals.

Political turmoil and civil unrest led to the resignation of President Soeharto in May 1998. The first democratic General Election was held on 7th June 1999 and Abdurrahman Wahid was elected President in November of that year. President Wahid himself was removed from office on 23rd July 2001 by a special session of the MPR (the People's Consultative Assembly) and replaced by the then Vice President, Megawati Soekarnoputri.

Indonesia had no history of stable democratic government, bore the scars of more than 30 years of authoritarian rule and possessed armed forces deeply entrenched in the political and economic life of the country (Bourchier and Hadiz, 2003). The vacuum created by the collapse in 1998 of the centralised Soeharto system led to pressure in outlying areas for greater autonomy and louder calls for independence in some regions.

This power vacuum had further results, such as several bomb attacks in Jakarta and violence in the troubled Aceh, Maluku (Moluccas), and Irian Jaya (Papua) provinces, along with several others. Since East Timor was finally allowed to go its own way and break away from the rule of Jakarta, residents of the North Sumatran province of Aceh – a predominantly Muslim province – have been demanding that they should be given the choice to hold a referendum, in the same way as East Timor. The Acehnese people have been unsatisfied with the way the government in Jakarta has kept them under tight control while exploiting them of their rich natural resources. The separatists have been fighting a guerrilla war against Indonesian rule, and thousands of people have been killed since the separatist rebellion began in 1976.

Meanwhile, the Indonesian government has also been facing an independence movement from a Papuan separatist group. The separatist group of the Papua Movement has been fighting for independence from Indonesian rule, claiming that the 1969 Free Choice vote was a sham and discredited. Thousands of people have died in years of struggle between Indonesian armed forces and separatist rebels in Papua.

In addition, shortly after the collapse of the Suharto regime, violence erupted in the capital of the province of Ambon. Thousands of people have been killed in the region as a result of fighting between Muslims and Christians, and also as a result of clashes with the security forces. Many Indonesians believe that the roots of the conflict seem to be a more basic struggle for territory and identity. Many Muslims believe that Christians have preferential access to government jobs, but, on the other hand, Christians think that they do not receive adequate protection from the government and fear that the influx of Muslim migrants will leave them a powerless minority.

Since 1967, the state leadership has changed from the Old Order under Soekarno to the New Order under Soeharto.²⁵ With the New Order government under Soeharto, everything had to comply with the 'one and only principle' (asas tunggal). To describe what the New Order government has done, the people of Indonesia know this phrase:

"To dream of something different would be so frightening, more so to act differently."

The development system that occurred in the New Order was centralistic. In general, the New Order leaders believed that it is the duty of the people to carry out the development programme that the government has planned. They still assume that people are inferior,

²⁵ The New Order era began when President Soeharto assumed leadership in 1967

that they must be guided all the time and that they lack the ability to understand the technical issues that are required by the development plan.

In a book about the history of Ajar University, it is explained that the treatment of the university by the New Order was different from its treatment by the Old Order. Soekarno's (the leader of the Old Order) regime did not intervene in university policy, at least not in the case of Ajar University, while in the New Order there was a tendency towards co-optation: for example, the postponement of the promotion of a Doctor, or deciding when a lecturer should gain promotion in rank or go abroad to undertake graduate study.

According to Sukarto (1999), the inclination to date in the education system in Indonesia is for the uniformity of education, uniformity of results and perception. This matter is shown in the determination of the national curriculum and, in the case of Senior High Schools and lower education, in the uniformity of textbooks used. The rapid advancement of the world requires the adjustment of a dynamic curriculum. The national curriculum, which must be determined nationwide, often results in an impact on the educative staff that makes them static, with less concern for demands for change.

However, university education autonomy has become a trend of globalisation. After being granted autonomy, the education system in Indonesia must play a more distinguished governmental role than before. Tilaar (2002) said that the role of central government bureaucracy in the area of education before autonomy was granted was greater than today, which discourages initiative on the part of the institutes.

In the reform era, following the fall from power of Soeharto, a new spirit of the democratic process arose in Indonesia. In the reform era, a greater part of power in the management of the country, which in the past was centralised, has, except for matters which are vital in nature, been transferred to regional administrations. This is shown with the issuance of Law No. 22 and No. 25 of 1999 on Regional Autonomy, and PP 61/1999 on University with Legal Entity Status (PT-BH), which was issued in the same year. In his study about economic reform and higher education in China, Ma (2003) concluded that economic diversity not only leads to changes in the structure of the country's leadership, but also leads to some kind of autonomy in university governance.

Up to the year 2000, as set forth in the Law on National Education No. 2 of 1989, autonomy given to a university was only in the form of academic freedom, the freedom of speech and autonomy in science. Now Government Regulation No. 60 and the following Government Regulation No. 61 of 1999 provides higher education institutes with autonomy in the area of management matters, planning and budgeting. There are two Indonesian universities that have been granted the autonomy status.

7.3.3. Economic Crisis

The bestowal of status as a legal board and of autonomy for universities is also an effect of events that occurred in the Indonesian economy. A crisis hit Indonesia a few years ago, specifically in the midst of 1997, and has continued up to the present: there has not yet been a recovery. The public universities are, by definition, funded by the public exchequer. The crisis implies financial stringency for the government and hence it can be expected that allocations to all sectors, including higher education, may decline during the crisis period. In acquiring public funds, the higher education sub-sector has to compete with more pressing sectors, i.e. basic education, poverty alleviation, and health.

As a result, the bestowal of autonomy was also an inseparable consequence of government finance since the economic crisis that hit Indonesia recently: because of the unorganised economy in Indonesia, the government was incapable of providing a sufficient budget. The Rector of Ajar University revealed his opinion about government responsibility in education after the crisis:

“The low education quality in Ajar University is inseparable from state responsibility. However, Ajar University can’t expect too much that the government will give huge funds. For instance, in 2004, the government only gave a subsidy of around Rp 46 billion for Ajar University. In fact, in 2003, the Ajar University budget reached around Rp 553 billion.”

Meanwhile, the government simply allocated 3.49 per cent of its Income Budget (Anggaran Pendapatan) and State Budget (APBN) for the education area (UNDP, 2001). The allocations were far removed from the government’s obligation to allocate 20 per cent of the State Budget (APBN) for the education area in accordance with the mandate of the 1945 Constitution and Law Number 20 year 2003 on the National Education System. The government’s incapability to allocate 20 per cent of the State Budget (APBN) for the education area was revealed, by the Minister of Finance (Kompas, 27/01/04), to be because:

“The state burden is so heavy. Besides, it must provide a budget for all the other 19 sectors, and the state is also obliged to pay the debt and the interest every year, which is a great amount. In 2004, the debt and interest paid was Rp 131.2 trillion or 149 per cent of the education budget.”

7.3.4. Pressures From Foreign Donors in Indonesia

International Financial Institutions such as the International Monetary Fund (IMF) and the World Bank (WB) have a long history of intervention in Indonesia. This started during the early 1960s when the Indonesian economy experienced a crisis caused by a collapse in the price of Indonesia’s major export, rubber. As a result, the WB offered substantial loans to Indonesia, conditional upon the implementation of severe austerity

measures and the de-nationalisation of the previously foreign-owned sector of the economy (Down to Earth, 2000). In response, the Indonesian President Sukarno rejected the WB aid package. However, following Suharto's coup in 1965-66, the IMF and the WB were back through the Inter-Governmental Group on Indonesia (IGGI, later renamed CGI) and control over the Suharto regime's economic policies.

In 1997, an economic crisis began in Indonesia, which has brought Indonesian companies to the point where they are not in sufficiently good financial health to run their businesses. There was also a "lack of confidence" among foreign investors, who continued to shy away from investing in the country's unstable political economy. Support from official foreign investors and international financial institutions is still critical to Indonesia's economy since Indonesian investment activity is primarily from foreign companies. In addition, Indonesia's government is unable to borrow more money from international investors unless it pays impossibly high interest rates.

Foreign donor organisations, like the IMF and World Bank, have issued almost-irresistible demands for economic law reforms, backed by the loans needed for economic and political survival (Henisz et al., 2004). A dependency of the Indonesian government on the IMF has been caused by the credit given by the IMF, which has become bigger and bigger every year (see Table 7.3 below). With about 75% of Indonesian businesses in technical bankruptcy following the country's economic collapse in 1998, the government was forced to turn to the IMF for an emergency debt-relief package totalling \$43 billion (www.imf.org).

Name of Projects	Project's Fiscal Year	Total Loan (US\$ Millions)
Human Resources Educational	1971 - 1992	1301.1
Human Resources Educational	1994 - 1998	528.3
Source: Basri et al. (1999), "A Study Case of Corruption in World Bank Projects", the paper has not been published, as written by Nugroho (2000).		

Table 7.3: World Bank Package for Indonesian Education Development 1971 - 1998

In return for this, the strategy adopted by the Indonesian government has to reflect the agreement between the government and the IMF, such as slashing the social budget (subsidy cuts in education, fuel, etc.), privatisation programmes, re-capitalising insolvent banks, liberalising foreign trade and investment, increasing the transparency of public sector activities to enhance the quality of governance, and dismantling domestic monopolies (Fanning, 2000; www.imf.org). The important point is that when the state decided to revoke subsidies for the parts of the public sector that were thought to be uneconomical, as was asked by the institutions, the education sector was included. The revocation of subsidies was meant to lead to the government relinquishing control.

The IMF demanded that Indonesia implement an economic reform programme in order to help save its economy. IMF demands included creating greater transparency in the issuing of government loans and subsidies, and stricter enforcement of laws and regulations in the area of government procurement. The government has announced several reform initiatives since receiving the IMF bailout package, including the planned privatisation of several sectors of the economy and reform the state higher education institutions. In its effort to satisfy the donor institutions in order to secure on-going funding, the government has pursued these policies.

In addition to this, the influences of foreign donor institutions (i.e. the IMF) on Indonesia can be seen in the following examples: the IMF forced the Indonesian government to liquidate one of the Indonesian banks and rejected the government plan

to present a rights issue of Rp. 3.9 billion²⁶ as an alternative solution to save the bank; the IMF also forced the Indonesian government to sell one of the biggest companies in Indonesia, Asia Pulp and Paper (APP), to a foreign creditor.

In addition, the IMF and the other donor agencies have also worked with the government by providing the government with some technical assistance on a number of public sector related issues. The IMF and the Asian Development Bank placed some of their advisors in the Ministry of Finance to assist the government in these issues.

7.3.5. Societal Pressure

The bestowal of status as a legal board and of autonomy for universities is also an effect of events that occurred in the Indonesian economy. The economic crisis spread to become a political, social, and cultural crisis in Indonesia. This situation has led to less and less public trust in formal institutions, the government, or even in public groups. Therefore, the process of transition to a more democratic civil society needs a trusted partner that is able to act as a moral force: public universities are expected to be capable of playing this role, provided that some requirements can be met.

An attempt has been made to put public universities in a position as a moral force. In order for the public universities to play their role in the process of development of a more democratic civil society, as well as being capable of competing globally, their legal status needs to change from the present condition. As a unit in the Department of National Education, it would be difficult, legally, for a public university to play an important role in creating a moral consciousness. A self-reliant moral force can develop if a university does not depend on something (Kompas, 23 July 1999).

²⁶ Exchange rate for £ 1 = Rp. 15,000

Additionally, society, through tax, donation, and tuition fees, has become the funding party, so that a university has to be accountable to society for the use of funds and the quality of its product, i.e. graduates. Following President Soeharto's resignation, there was a growth in public demand to discover the way the public institutions spend public resources. Accountability to society may not be an easy thing to ask of a public university as a unit of the Department of National Education. Moreover, its credibility is simply gained when the two things, autonomy and accountability, are gained in reality, as well as being applied in public university management. Thus, a PTN has to change its legal status to an independent State-Owned Legal Board and autonomy must be bestowed.

Based on Government Regulations (PP) No.61 Year 1999, the Ajar and Didik university's decision to become a State-Owned Legal Board (BHMN) was taken due to the following considerations:

- (i) To improve the national competitive ability required of the universities to be the moral and intellectual force in the process of development of a democratic society, and also to be able to compete and cooperate globally.
- (ii) In order to be able to play the role as the moral and intellectual force that has the credibility to support national development, as well as having competitive ability at the international level, the universities must have independence.
- (iii) Ajar University and Didik University already have the ability to implement adequate management in order to obtain autonomy, independence, and more responsibility.

Indonesia is a highly pluralistic country and a diverse nation, reflected by its national credo: 'Bhineka Tunggal Ika' which means 'Unity in Diversity'. With dozens of

existing ethnic groups and several hundred different local dialects, Indonesia is comparable with Europe in terms of diversity (see appendix 5.2. for further explanation). In such a highly pluralistic country, a universal policy that applies to every institution is not suitable. Uniformity of practices does not fit such a heterogeneous system. Providing more autonomy to higher education institutions is considered to be the best-suited approach to managing the higher education system in a highly pluralistic country such as Indonesia.

7.4. The Case for University Reforms in Indonesia

The positive side of the status change is that the universities are independent, which means that they have the power to make decisions and manage their own governance. The universities have the authority to adopt any behaviour. Therefore, Their accountability is improved. As a result, the universities should change their paradigm from accountable to government to becoming accountable to stakeholders, where the government is one of the stakeholders. The implications of facing autonomy are that, in practice, it sucks up extra energy in preparing supportive resources and infrastructure. The Rector of Ajar University explained the reason for the bestowal of autonomy on the university:

“ The government formed BHMN universities in order that they might have greater authority to manage and set the curriculum, to make universities independent education financial policy and in determining requirements for lecturer appointment that are in accordance with university needs. With all the authority and independence, it is expected that student quality will improve.”

The administrative reason for the need for decentralisation is that the centralised system is classified as bureaucratic and wasteful. Fiske (1996) said that empowerment of officials at a local level would give better results, as it eradicates the multi-level bureaucratic procedures and motivates education officials and lecturers to be more productive. Fiske (1996) also said that decentralisation would improve the quality of

teaching and learning, as it places decisions near the place of teaching and learning, encourages the officials and lecturers to work better, and serves as a place for people and educational officials of all levels to have a sense of belonging in the education system.

Consequently, in the case of universities, measures taken to overcome government funding deficiencies are as follows: first, to rely on comprehensive plans from the state; second, to raise tuition fees; third, to find out ways to attract foreign investors or private institutions, including loans; fourth, to develop business units such as petrol stations, supermarkets, telecommunications points and so on. According to some interviewees, the fastest and the most appropriate way for now is to try to raise tuition fees, in spite of opposition from certain parties.

7.5. Proposition

7.5.1. Reform of an Organisation's Status and MCS

There are some studies that discuss the impact of the change of an organisation's status on the management control activities. One of the major subjects for study is the privatisation of state-owned enterprises (SOEs). Evidence has suggested that privatisation has some effect on MCS (Uddin and Hopper, 2001). For instance, the above study by Uddin and Hopper (2001) on a privatised soap factory in Bangladesh found that privatisation changed the budgetary control system. Due to the computerisation of information systems, the company now has a more detailed budgetary control system which is reviewed more frequently.

In the case of the higher education sector, review of the previous studies in Chapter Two revealed that there is evidence that university reforms have led to some changes in MCS context within universities. For example, Watts (1996), Meek and Wood (1998) and

Crebert (2000) found that management accounting control systems (such as: strategic planning, governance, and budgeting) in Australian universities changed after the Dawkins reforms in 1988. Moreover, Lee (2001) and Ma (2003), who conducted studies in universities in Singapore, Hong Kong and China, found that university reform brought a new remuneration system in the universities, which consists of a basic salary and other components that relate to performance, responsibilities and market value. Lee (2001) added that reforming universities has been seen as a move to restructure the relationships between universities, the state / government, and society.

Based on the above argument it is proposed that

P1: The changes in the status of the universities from state units to legal entities will lead to changes in their management control systems

7.5.2. External Organisations and MCS (Coercive)

The economic crisis in Indonesia produced ideas to improve rationality over state financing activities in order to obtain efficiency, effectiveness, and economy of state expenditure. As the condition of state finance is poor because of the crisis, the importance of a budgeting function to decide on priorities and to combine an action plan with available potential resources was realised. The benefits and cost of any activities are analysed and any institutions that use the budget have a duty to report their performance. The economic crisis also provided an opportunity for Indonesian policy-makers to examine and identify the structural weaknesses within its public sector and to undertake the necessary budgetary reforms in an appropriate, sequenced manner.

The economic climate since late 1990s has led to pressure on government and companies' management to find a way to improve financial performance. From the beginning to the middle of the 1990s, management faced uncertain economics because of government and business actors' debts. The crisis, coupled with the political decline,

led Indonesian society to the call for the resignation of President Soeharto and demands for political reform. The vacuum created by the collapse in 1998 of the centralised Soeharto system led to pressure in outlying areas for greater autonomy and louder calls for independence in some regions.

Hence, following Soeharto's resignation, Indonesia introduced major law reforms and new legislation in the management of economic and social processes, including bankruptcy, unfair competition, decentralisation and related laws to improve democratic life, and has also undertaken the process of decentralisation. With the new law reforms, the government grants greater autonomy and new responsibilities to the districts. This re-allocation of power has turned Indonesia from a centralised to a de-centralised country. This de-centralisation has continued in some government agencies, such as educational institutions.

Soeharto's government manipulated people to keep silent towards the "over-extended family" and "corruption, collusion and nepotism" cultures. These cultures had been abused for economic and political domination. The change of political situation gave the Indonesian people back the political voice that was silenced by Soeharto's leadership. Indonesian people increasingly demand the rights of freedom of speech, to participate and to organise themselves to control the government's activities. As a further result, the workers have organised themselves so that they are strong enough to fight for their own interests, so that they can participate in the process of production and share in the profit (Banawiratma, 2000). These rights also led to a growing public interest in the way in which public resources are used. In the case of universities, this situation was added to by the growing interest of students, as the main users of university equipment and

services, to be told the way that the university spends the money it receives from them (such as: tuition fees).

The Reform Era gave Indonesian people the opportunity to practise democratic principles. The Indonesian people want the Reform Era to decrease or abolish corruption, collusion and nepotism in every area, including in government units. To achieve this goal, some changes have been made to the Indonesian laws and regulations (which are: Government Regulation No.61/1999 on reforms in Public Universities, Law No.17/2003 on State Finance, Presidential Instruction No.7/1999 on the System of Finance Report of the Government Institutions). The most important change is that to the Indonesian 1945 Constitution, which represents the highest-level regulation in the Indonesian legal system, and serves as a basis and reference for all of the subordinate regulations of Indonesia. The change in the constitution was followed by other laws.

Regulations create and reinforce routine and structures, since organisations need support from the environment for their survival and continued operation while, if they fail to conform to such regulations, they risk losing their legitimacy and external support from the government as the fund provider, society, and the other stakeholders (D'Aunno et al., 1991). Moreover, the Law on Finance of 1925 (*Indische Comptabiliteit Wet/ICW*), a legal product since the Dutch colonial rule, and Law No. 43/1999 on civil servants (*Civil Service Law*), have been considered as barriers to the universities changing certain existing management control practices. D'Aunno et al. (2000) found that state legislatures produced several policies that aimed to promote or inhibit change in their studied organisations. This contradictory effect has been argued by D'Aunno et al. (2000) and Meyer and Rowan (1977) to be because institutional actors have multiple and often inconsistent interests.

As one of the government units, the universities are also dependent on the acquisition of resources from government to support their activities. The universities also have to obey the requests of the governmental institutions where their operations are regulated in order to secure funds from the agencies (see also Collier, 2001).

Based on the above argument it is proposed that

P2a: The external environment, such as governments, including government bodies, and laws and regulations, would influence the operations of management accounting control systems in the studied organisations

P2b: Political situation would influence the operations of management control systems in the organisations

P2c: Laws and regulations would promote or inhibit the change in management control systems in the organisations.

7.5.3. Willingness to Imitate Other Organisations and MCS (Mimetic)

Many countries, especially Asian countries, have already changed their state university systems to be autonomous, examples being China, Malaysia, Thailand, Cambodia, Hong Kong, and Singapore. The explanation in section 7.3.1 above concluded that the low ranking of the Indonesian universities in Asia created a willingness in the Indonesian government and academicians of the Indonesian universities and public to develop the quality of the Indonesian universities to catch up. For example, they learned from the experiences of the neighbouring countries (such as higher education reforms giving an autonomous status to the state universities) in order to catch up with their counterparts.

Based on the above argument it is proposed that

P3: The willingness to imitate other successful organisations would influence the organisations to adopt certain management accounting control practices

7.5.4. Professionals, Cultural Value and MCS (Normative)

Economic development in Indonesia over the past years, especially in the New Order era, has had a strong relationship with the United States and other Western countries (Heuer et al., 1999). In the New Order era, Indonesian technocrats that trained in the United States or other Western countries have been the main players as policy makers. An example is given by Hollinger (1996) and McCormack (1999), who stated that in the beginning of the New Order era, a group of economists trained at the University of Berkeley set up a policy about foreign direct investment in order to support economic growth through export.²⁷ Moreover, Heuer et al. (1999) argued that Indonesian managers' completion of the U.S. or overseas Master of Business Administration, and the proliferation of such programmes in Indonesia, have played a part in the widespread application of Western Management techniques in Indonesia.

In addition, McCormack (1999) added that most of the bureaucrats who held influential positions as policy makers were also lecturers at leading universities in Indonesia. This situation supported the development of Western knowledge, including accounting theories, in Indonesia. With their positions, these bureaucrats and scholars diffused knowledge through education to young scholars who represent the next generation of policy makers and bureaucrats.

Based on the above argument it is proposed that

P4a: Management control systems in the studied organisations are shaped by professionals both within and outside the organisations

Many previous researches (such as Birnberg and Snodgrass, 1988; Granlund and Lukka, 1998; Collier, 2001) discuss about culture in their study. Birnberg and Snodgrass (1988)

²⁷ Further explanation about the influence of Indonesian Western-trained bureaucrats in the development of the Indonesian economy can be obtained from McCormack (1999) in his article "Fifty years of Indonesian development: "one nation," under capitalism."

in their study that comparing Japanese and American culture found that culture affects control in an organisation. In term of Indonesian environment, Tsamenyi, et al. (2004b) found that the adoption and evolution of control systems in the family-owned university they studied are significantly shaped by the Indonesian culture. Culture that is developed in any of the various organisations in Indonesia is inseparable from a number of factors, which are the system of values accepted in general by society: for instance, the principle of consent (*musyawarah*), unanimous decisions (*mufakat*), co-operativeness (*gotong royong*), loyalty, *kekeluargaan* (family atmosphere); forgiving culture, look up to the top officers (in Javanese, this is called *ing ngarso sing tulodo*) (see Rademakers, 1998; Dean, 2001; Tsamenyi et al, 2004b). An example of the influence of culture in Indonesian people day-to-day activities has been shown in Article 33 of the 1945 Constitution that stated that *the national economy shall be organised as cooperative endeavour based on the family principle*.

Hence, as has been also argued by Dean (2001), Tsamenyi et al. (2004b) that all the culture issue above may well explain some managerial practices in Indonesian organisations. It has been supported by some researchers (such as Granlund and Lukka, 1998; Collier, 2001) that argue that the success or failure of an adoption of new management and accounting systems in an organisation depends on the relative strength of a culture. Collier (2001) provides an example of this by saying that managerial reform in an organisation could be impeded by a resistance that has been supported by a strong culture.

Based on the above argument it is proposed that:

P4b: Culture would promote or inhibit the organisations to adopt certain management control practices.

7.5.5. Inter Organisational Power Relations and MCS

Organisational power relations among individuals or institutions within an organisation produce opposing effects, either promoting or inhibiting change in the organisations' systems (see Burns, 2000; Collier, 2001). The review by Collier (2001) highlights that organisational power may cause conflict where interests do not coincide. Organisations experience difficulties in changing their existing systems when faced with the ability of an individual(s) or an institution(s) to influence behaviour and overcome resistance (Burns, 2000; Pfeffer, 1992). On the other hand, Giddens (1976), Burns (2000) and Collier (2001) have also argued that power has the potential to be enabling if the interests of different groups are shared.

As can be seen in the study by Collier (2001), the power of institutions arises from the need of the organisations for legitimisation. As an example, in universities, as government units, political uncertainties were linked with laws and regulations, and this led to a lack of managerial autonomy that prevented managers from responding to problems relating to their sub-ordinates (such as rewards and sanctions): the managers must obey these laws and regulations to support their survival and continued operation (Collier, 2001). This finding is similar to that of Hoque and Hopper (1994), who found that reward and punishment systems in the studied state owned companies have been influence by the regulation from government. As a result, the companies only took little action against any employees who failed to achieve set targets because compensation and punishment was decided by the government.

Based on the above argument it is proposed that

P5a: Power relations would either promote or inhibit change in the organisation's management control systems.

P5b: Government laws and regulations influence certain management accounting control practices by affecting organisational power relations of the universities managers over their sub-ordinates

7.5.6. Market Forces and MCS

Most countries in the world, including Indonesia, have been influenced by the phenomenon of globalisation and the knowledge-based economy that have caused dramatic changes to the character and functions of public sector institutions, including higher education institutions (Mok & Lee, 2001).

As has been discussed in Chapter Three, most universities in LDCs are today facing more competition from universities in developed countries, for example from the establishment of local branches or satellite campuses, or through international distance education and e-learning for course delivery (see Mohamedbhai, 2002). This phenomenon has also been happening in the Indonesian higher education market since early 2003 (see explanation in section 7.3. above). Indonesian law No.20/2003 on the System of National Education promotes change in the universities accounting control by allowing overseas universities to set up local branched or work together with local private universities to establish a new university. This fact has increased competition between national and international higher education institutions in Indonesia. This strong competition motivates organisations to consider their existing system to increase the organisation's ability to face the competitive pressure (see also D'Aunno et al., 2000).

Some experts (such as: Mia and Clarke, 1999) have argued that an organisation needs to adapt quickly to face threats and opportunities in the competitive environment and that they design appropriate control systems for this purpose. Consequently, Mia and Clarke (1999) also argued that if an organisation faces increasing competition in its market yet fails to adopt and implement appropriate strategies to deal with such competition, its performance will decrease.

Hannan and Freeman (1977) and Baum and Haveman (1997) argued that organisations that have comparative disadvantages in key areas need to make substantial changes in templates as they seek domains in which they can hold a competitive advantage. This is consistent with the argument of Parker (2002), Mensah (1981) and Gordon and Narayanan (1984) that control system design is sensitive to the way that a firm competes; hence, universities in many countries have dramatically adjusted their activities as a response to global external environment pressures.

As government units, the two studied universities had limited freedom to manage their day-to-day activities in order to face market competition, especially from their international competitors. Hence, the universities sought more freedom from the government in order to manage their activities. For that reason, after a long discussion, the government granted autonomy to the universities. Conway et al. (1994) provided an example of the influence of competitive forces, which is that, in the UK, market forces influence the new universities' and colleges' management accounting practice (e.g. strategic planning). They argued that the universities and colleges need to incorporate a greater market orientation into their strategic planning process to acquire a competitive advantage over their rivals.

Based on the above argument it is proposed that

P6a: Competition influences certain management control practices in the organisation.

P6b: Government regulations and policies influence certain management accounting control practices by increasing the level of competition that organisations face

7.6. Chapter Summary

From the literature review above, there are some external factors that influence the decision to grant the autonomous status to some universities in Indonesia. The reforms in Indonesian higher education institutions have been an integral part of some of these factors, which are: firstly, economic constraints, like the Indonesian financial crisis, quicken the tempo of the reform steps; secondly, the Indonesian government's plan to reduce the burden of its budget; thirdly, the autonomy is in line with the foreign donors' reform packages to increase accountability and transparency within the Indonesian government; fourthly, pressure from the public, who expect the country's major universities to play a greater role in the strengthening of the economy and in the empowerment of the regions by producing better-qualified graduates in a more efficient and transparent way; fifthly, influences from world globalisation, which puts Indonesian universities under pressure to compete for resources, students, and a good name; sixthly, pressure from the public on the university to act as a free and independent moral agent for changing to better conditions for civil society.

Finally, the complexity of problems that the university faces will immediately become an obstacle to reform in the two universities. Therefore, the reform needs to proceed gradually to avoid collisions between viewpoints and interests. As one of the deputy deans in the Didik University stated:

"We don't have any magic wand to change conditions in the blink of an eye. We should make continuous and gradual changes. We should dare to innovate in this kind of situation to solve any problem."

This discussion will be continued to the next chapter, which discusses the background of Indonesian higher education and the studied organisations.

CHAPTER EIGHT:

BACKGROUND OF INDONESIAN HIGHER EDUCATION AND THE STUDIED ORGANISATIONS

8.1. Introduction

The purpose of this chapter is to describe the background of the Indonesian higher education environment and the research sites, Ajar University and Didik University. This chapter is divided into three parts. The first part provides an overview of the background of the Indonesian higher education environment in order to provide more information in chapter discussion, followed by an introduction to Ajar University and then Didik University in next section. This chapter then closes with a summary.

8.2. Education in Indonesia

8.2.1. The Structure of Education in Indonesia

Educational development is a priority for government policy because Indonesia is a developing country. Education levels included in the school education system are based on the Law No.20/2003 and consist of primary education, secondary education, and higher education. According to UUSPN, higher education is education after secondary education, and covers the diploma programme, undergraduate, postgraduate, and specialist degrees, and doctorates. The education and training sector also includes non-formal, professional, and out-of-school education. The system of formal education in Indonesia consists of the following levels of education:

1. *Pre-school programme.* The pre-school programme is largely organised by private groups. This programme is more popular in urban and developed regions, and is still quite rare in rural and less developed parts of the country. Included in this programme are: (1) Nursery school (< 5 years of age), and (2) Kindergarten (< 6 years of age).
2. *Primary education.* Compulsory basic education in Indonesia lasts for nine years and consists of two parts: six years of primary school (Sekolah Dasar / SD), and three years of junior secondary school (Sekolah Lanjutan Tingkat Pertama / SLTP).
3. *Secondary Education.* This programme of education is intended for children between the ages of 16 and 18 years. Senior secondary education consists of three years and is divided into vocational (Sekolah Menengah Kejuruan / SMK) and general streams (Sekolah Menengah Umum / SMU).
4. *Higher Education.* There are three types of higher educational institutions, which are: universities; advanced schools and institutes; polytechnics and academies.

Figure 8.1 below summarises the Indonesian education system.

Official School Age		PA		PP			
		PDAI (S ₁)	PD (S ₂)	SP II			
22	Higher Education	PMAI	PM (S ₂)	SP I			
21							
20		PSAI (S ₁)	PS (S ₁)	D ₄	D ₃	D ₂	D ₁
19							
18	Secondary Education	Islamic Primary School (MA)		Senior High School (SMU)		Vocational Senior High School (SMK)	
17							
16							
15	Basic Education	Islamic Primary School (MTs)		Secondary School (SLTP)			
14							
13							
12							
11							
10							
9		Islamic Primary School (MI)		Primary School (SD)			
8							
7							
6	Pre- School	BA/RA		Kindergarten (TK)			
5							

Remarks:

PA = Academic Education

PP = Professional Education

PDAI = Islamic Religion Doctoral Programme

PD = Doctoral Programme

SP II = Specialist Professional II

SP I = Specialist Professional I

PMAI = Islamic Religion Magister Programme

PM = Magister Programme (S₂/Islamic Post Graduate)

PSAI = Islamic Graduate Programme (S1)

PS = Graduate Programme (S1)

D₄ = Diploma 4

D₃ = Diploma 3

D₂ = Diploma 2

D₁ = Diploma 1

BA = Islamic Kindergarten

RA = Islamic Kindergarten

Figure 8.1: School System in Indonesia

8.2.2. History of Indonesian Education

Education in Indonesia has experienced three different eras subsequent to political changes in Indonesia: these are the Old Order educational system, the New Order educational system, and the post-reform educational system.

8.2.2.1. Education in the Old Order Era (1945 – 1965)

The Old Order period started from the time Indonesia gained freedom from the colonialists. The Post-Independence Indonesian National Education System formally

commenced following the declaration of Indonesian independence on 17 August 1945. At the time, all activities were directed to encourage nationalism, union and unity as well as towards the consolidation of national power. Consequently, education was directed towards an indoctrination process, rejecting all ideas from outsiders (Tilaar, 2000). Tilaar (2000) further argued that education in Indonesia was not oriented towards quality improvement but used as a power tool in order to achieve the government's goals.

8.2.2.2. Education in the New Order Era (1965 – 1998)

In this New Order era, President Soeharto's administration ordered uniformity in thought and action. The government tried to create a homogenous society. It killed democratic life and developed a rigid bureaucracy, in which officers were to ask for their superiors' guidance, which eventually bridled the initiative of individuals to form their own opinions and extinguished freedom of expression. During this period, the ruling voice (government) was absolute. Furthermore, education had no social accountability since society was not involved in its management. Accountability was determined by the rulers, not the consumers. Society had been distanced from their right to education.

The consequence of a dead democratic system during the New Order period, Tilaar (2000) concluded, was an unclean government with bad practices such as corruption, collusion and nepotism (KKN). Corruption triggered a high-cost economy. However, at the time, as Tilaar (2002) explained, the education system in Indonesia was aimed at achieving quantitative goals. As a result, Indonesian educational output did not have global competitiveness.

8.2.2.3. Education in the Reform Era (1998 – Now)

Entering the reform era, subsequent to the Soeharto government, the Indonesian people intended to create a democratic society, which meant that each person would have communal rights and obligations, freedom of expression and rights to reject certain opinions. According to the Central Statistics Agency of Indonesia (2003), the percentage of the population completing an educational grade tends to get smaller in line with the increasing educational grade. The percentage of the population completing elementary school and junior high school amounts to 29.6% and 14.7%, respectively. Furthermore, the percentage of the population who graduate with a minimal Bachelor's Degree only amounts to 1.7%.

In addition, the Central Statistics Agency of Indonesia also records that the opportunity to obtain an education is not enjoyed by all of the population. Of the population aged 5 years and over, the proportion that have never attended school amounts to 11.1%, the proportion that are still attending school amounts to 24.8%, and the proportion that have dropped out amounts to 64.1 %.

In the year 2002, it was recorded that the number of schools existing under the Department of National Education at the elementary school level amounted to 148,516 units, junior high school amounted to 20,842 units, senior high school amounted to 12,307 units, and university amounted to 1,891 units, as shown in the graph below. The graph below also shows that there was an increase in the number of universities from 1,633 units in the academic year 2000 to 1,747 units in the year 2001 and 1,891 in the year 2002.

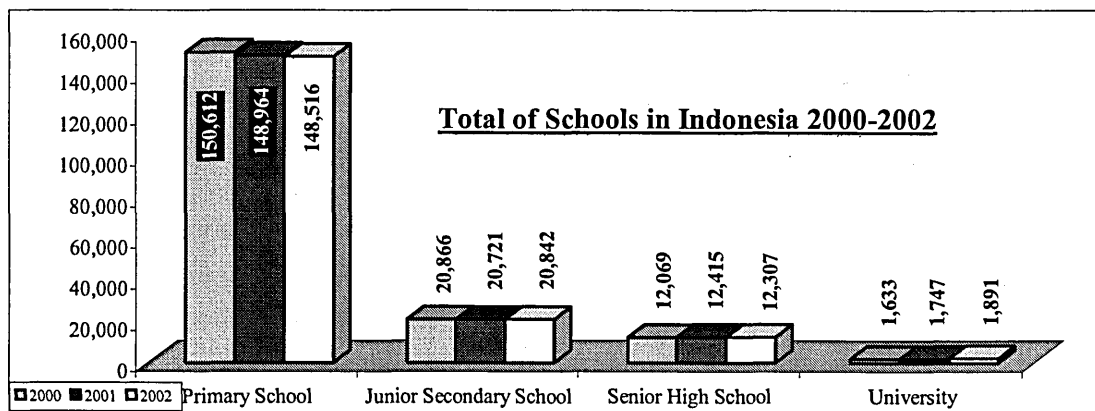


Figure 8.2: Total number of Schools in Indonesia 2000 - 2002

Source: BPS – Statistics Indonesia

In Indonesia, private institutions play a dominant role in higher education. However, most private institutions only enrol a small number of students: 1.6 million students are enrolled in 1558 private institutions, compared to the remaining 950,000 students in merely 75 public institutions. The table 8.3. below summarises this information.

	Number of institutions	Number of student enrolled
Public institutions	78	942,973
Private institutions	1558	1,681,175

Source: Moeliodihardjo (2000), Dikti PTN (1998), Dikti PTS (1998)

Table 8.3: Distribution of Institutions and Student Enrolment

The 1945 Constitution stipulated that one of the constitutional obligations is to develop the mentality of the nation. Higher education institutions in Indonesia have to implement national objectives. Subsidy is a policy instrument that the government of Indonesia utilises to bring justice and equality into reality in various public services, including higher education institutions. When the government's finances are sufficient, this normally enables the government to expand the higher education institutions. Before the economic crisis, the government subsidises 95 percent of the cost of the higher education institutions. Since the economic crisis, government finance is not as good as it used to be and, as a result, this has had the effect of reducing the level of subsidy.

8.2.3. Indonesian Higher Education Systems

The Indonesian higher education system is comprised of both state and private institutions, which are both recognised by the Ministry of Education and Culture. Indonesian higher education institutions are typically academies, polytechnics, institutes and universities. An *academy* conducts applied science education in one, or part of one, discipline, technology or one of the arts. *Polytechnics* are attached to universities and provide sub-degree junior technician training. A polytechnic conducts applied science education in several particular fields. Both of these forms of higher education are categorised as professional education. A *college/school*, both public and private, conducts academic and professional education in one particular discipline. An *institute* consists of faculties conducting academic and/or professional education in disciplines that belong to the same group of professions. This category includes Islamic institutes, which have the same rank as universities but come under the Ministry of Religious Affairs, and institutes and teacher training institutes, which rank as universities with full degree-granting status. A *university* consists of several faculties conducting academic and/or professional education in several disciplines, technologies and/or several of the arts.

Higher education in Indonesia recognises bachelor (S1), master's (S2) and doctorate (S3) programmes, each of which covers the number of system credit units (sks) amounting to 144-160, 180-194 cumulative for a master's programme, and 220-233 cumulative for a doctorate programme. In the system as conducted in the United Kingdom, at undergraduate level, a university usually offers both arts and science degrees. Furthermore, a master's degree lasts an average of two semesters, which is then continued to doctoral degree level. The master's programme and doctoral programme

are also called graduate school. Graph 8.4 below summarises the differences between higher education in Indonesia and the United Kingdom.

Indonesia	United Kingdom	
----- Doktor ----- ----- (220 – 233 SKS) -----	----- PhD; Dr ----- -----	
----- Sekolah Pascasarjana ----- ----- Magister ----- (180 – 194 SKS)	----- Graduate School ----- ----- MA; MSc, MBA -----	
----- Sarjana (S1) ----- (144 SKS)	---- College / Undergraduate ---- Arts Science	

Table 8.4: Higher education system in Indonesia and United Kingdom

The Ministry of Education and Culture reports that, in the year 2000, there were 77 public and 1,365 private tertiary institutions. Coordination is the responsibility of the Ministry of Education and Culture through the Directorate General of Higher Education, which exercises authority over both state and private institutions. State institutions are financed by the central government, although provincial governments may also provide funds. Each of these has different standards and facilities, particularly among private institutions. Roughly 10% of tertiary education students attend government-run state institutions, while the remaining 90% attend private institutions. Tertiary education includes both academic and vocational streams and students may choose between four-year academic degree programmes and vocational non-degree programmes of study, which last for one to four years.

A lecturer in a government higher education institution is a civil servant, as decided by the government in the Decree of the Minister of State for Empowerment of State Apparatus on “Lecturer Functional Position and Credit”, which states:

“Being a lecturer in a Government Higher Institution is the right of an individual only if he is a Civil Servant and possesses the ability to teach in it.”

Lecturers in Indonesia, be they civil servants or private company employees, have the same level of classification. The positions and classifications of lecturer, from the highest ranking to the lowest, include the following:

- a. **Assistant Expert:**
 - 1. Penata Muda golongan ruang III/a;
 - 2. Penata Muda Tingkat I golongan ruang III/b;
- b. **Associate Professorship consists of:**
 - 1. Penata Golongan ruang III/c;
 - 2. Penata Tingkat I golongan ruang III/d;
- c. **Senior Associate Professorship:**
 - 1. Pembina golongan ruang IV/a;
 - 2. Pembina Tingkat I golongan ruang IV/b;
 - 3. Pembina Utama Muda golongan ruang IV/c
- d. **Professorship:**
 - 1. Pembina Utama Madya golongan ruang IV/d;
 - 2. Pembina Utama golongan ruang IV/e

8.2.4. Performance and Problems in Higher Education in Indonesia

Higher education in Indonesia is facing a number of problems, one of which is funding. The Indonesian government has, for many years, invested less than 3% of its GNP in education. Since the Indonesian economy is unorganised, the government is incapable of providing a sufficient budget. Another problem is the low level of salaries. Generally, the salary of lecturers throughout Indonesia is too small to live a decent life. Therefore, many lecturers also have additional jobs in order to make ends meet. As a result, they lack the time and concentration to improve their academic qualities. It is common for some lecturers to resort to lecture notes, teaching strategies, and test materials that have been used for several years without any improvement. Moreover, lecturers are unable to update themselves in their respective fields and to do research as a prerequisite to climbing the career ladder. A university lecturer who participated as a research subject gave the following comment on his salary:

"If I calculated my monthly salary as a lecturer, it would perhaps just cover 25% of the cost of living for me and my family each month. In anticipation of this, I have to do another job outside of the university. In addition, my wife also works full-time in a company."

Therefore, the government and public universities, as well as all components of society, must work harder to give a more prosperous life to all levels of lecturers and public university employees: if these people attain a decent life, this will result in their increasing commitment; if not, they would seek other opportunities for work outside of the university, which would decrease the effectiveness of education on campus. They are hardly bound to their university, as they have to find extra income outside of the office. A respondent emphasised the above during the interview:

“The welfare of lecturers should be raised; then they would have more of a commitment to stay at the campus. If they had a better income, they would concentrate more on subject preparation. As a result, they would be more eager to guide their students. The students would then graduate on time and funding resources, as well other resources, would not be overspent during the course of study.”

Another problem is when achievement in a managerial position is more appreciated than scientific achievement. People are more proud of getting a position such as a major head, dean or rector, and especially director general or minister, than being a scientist instead. As one interviewee commented:

“It’s understandable since the structural positions in the university, for example, get much better payment than a lecturer. It emerged that some of the lecturers prefer to support non-regular programmes which provide a huge income.”

A further problem is the high dependency on sponsors, since most research in a university is directed by outside parties, both government institutions and companies. Research reports therefore aim just at meeting the needs of the sponsor: very little effort is put into an in-depth analysis of the data or writing it for submission to a qualified publication whilst referring to the very latest literature. The majority of university lecturers assume that research is simply an extra activity to get additional income and

not to make a new breakthrough or to contribute their knowledge to others: they do it because their salary is low.

Finally, the critical issue in the Indonesian higher education system is the availability of qualified staff among the institutions, which has a serious impact on the quality of the education process. Many programmes in the regional universities do not have enough staff with the proper qualifications, which endangers the level of competitiveness of its graduates in the job market. More than half of the staff in public universities hold only a first degree, as illustrated in table 8.5. below.

Highest degree earned	Total	Proportion
Diploma	471	0.98%
First Degree	27,597	57.58%
Specialist	1,747	3.65%
Master's	13,990	29.19%
Doctorate	4,123	8.60%
Total	47,928	100%

Source: Dikti PTN (1998)

Table 8.5: Distribution of staff in public universities

8.3. Background of Ajar University

Ajar University was established in year 1940s and is located in Yogyakarta. Ajar University, which is located in Yogyakarta, was established in the 1940s when a private foundation, consisting of a faculty of law, was established by a group of Indonesian intellectuals and nationalists. At the same time, the Department of Education of the new Republic of Indonesia founded many schools in many areas of Indonesia. Years after that, the government decided to establish a new university and united the six faculties / schools into one single university.²⁸

Today, Ajar University is one of the biggest universities in the country with around 50,000 students and approximately 4,000 lecturers and non-educative employees. At the

²⁸ The six faculties were: the faculty of medicine, the faculty of law, the faculty of engineering, the faculty of language, the faculty of veterinary science, the faculty of agriculture.

moment, Ajar University comprises 18 faculties and a graduate programme, 2 institutes with 12 university-wide centres, 5 inter-university centres, central laboratories and an agricultural experiment station, a computer centre, and a network of university libraries. The 18 faculties are the Faculty of Biology, the Faculty of Economics, the Faculty of Pharmacy, the Faculty of Philosophy, the Faculty of Geography, the Faculty of Law, the Faculty of Social and Political Sciences, the Faculty of Medicine, the Faculty of Dentistry, the Faculty of Veterinary Science, the Faculty of Forestry, the Faculty of Mathematics and Natural Sciences, the Faculty of Agriculture, the Faculty of Animal Husbandry, the Faculty of Psychology, the Faculty of Cultural Science, the Faculty of Technology, and the Faculty of Agricultural Technology.

The composition of the lecturing staff at Ajar University is that 6% of the academic staff are Professors, and around 30% of the staff hold doctorate degrees. Moreover, a lot of the academic staff are continuing their studies to obtain doctorates, either within the universities in Indonesia or abroad. Ajar University has produced a great number of scholars, around 70,000, with various degrees. It has taken merely half a century for Ajar University to develop into one of the greatest national universities in Indonesia. Ajar University runs all degree programmes, namely undergraduate programmes (S1), master's degrees (S2), doctorates (S3), and diplomas (S0).

8.4. Background of Didik University

As the oldest university in Indonesia, the university is the highest institution, and is highly experienced in education as well as in research. Similar to Ajar University, the origin of Didik University was also as a collaboration of nine faculties united into one single university. As also happened with Ajar University, the government established Didik University to unite schools that had already been founded. In the 1950s, when the university was first established, Didik University was a multi-campus university with

faculties in Jakarta, Bogor, Bandung, Surabaya, and Makassar.²⁹ In the 1960s, all of the faculties moved to three campuses, all in the same city. The university consists of twelve faculties: more than 200 study programmes are offered, along with research-based professional programmes, such as the diploma programme and the doctorate programme, and there are a total of around 36,000 students. Ajar University has 3 campuses, the areas of which are 320 hectares, 93,850 square metres, and 7,703 square metres.

To date, the university has 12 faculties - namely the Faculty of Medicine, the Faculty of Dentistry, the Faculty of Mathematics and Natural Sciences, the Faculty of Technology, the Faculty of Law, the Faculty of Economics, the Faculty of Cultural Science, the Faculty of Psychology, the Faculty of Social and Political Sciences, the Faculty of Public Health, the Faculty of Computing, and the Faculty of Nursing - as well as a post-graduate programme, and an international class programme. Faculties coordinate both degree and non-degree programmes, the former consisting of undergraduate degrees, master's degrees (post-graduate programme) and the doctorate programme, whereas in the latter, the diploma programme is available. The objective of the post-graduate programme is to organise a cross-studies master's programme while still guaranteeing teaching quality. The Academic Year is from September to August and comprises two semesters, each lasting for 16 weeks. There is a short vacation between semesters, and a longer one at the end of the second semester.

Based on data from 2003, the university's teaching staff comprised the following: 183 Professors, around 480 Doctors / PhD, plus 1,278 master's degree teaching staff. In addition, the data revealed that several of the academic staff were taking advanced study

²⁹ Didik University was a multi campus university with faculties in Jakarta (Medicine, Law, and Letters), Bogor (Agronomy and Veterinary Medicine), Bandung (Engineering, Mathematics and Natural Sciences), Surabaya (Medicine and Dentistry), and Makassar (Economics).

courses to obtain a doctorate, either in Indonesia or abroad. Up to 2003, the university had already produced a huge number of scholars, which numbered, in all degree programmes, more than 109,944 students.

Table 8.6. below provides the comparison between the two studied universities.

Table 8.6: Brief Description of Ajar University and Didik University

No	Items	Ajar University	Didik University
1.	Year of established	1940s	1950s
2.	Origin of the university	Union of six schools: the faculty of medicine; law; engineering; language; veterinary science; agriculture	Union of four schools: Medicine, Law, and Letters; Agronomy and Veterinary Medicine; Engineering, Mathematics and Natural Sciences; Medicine and Dentistry; Economics
3.	Grant of an autonomy status by government	Year 2000	Year 2000
4.	Location	Yogyakarta	Jakarta (Capital city)
5.	Number of faculties	18	12
6.	Number of students	55,000	35,326
7.	Number of alumni	134,219	109,944
8.	Number of employees		
	- Lecturing staff	2,266	2,434
	- Non-lecturing staff	2,301	2,000
	Total	4,567	4,434
9.	The composition of the lecturing staff		
	- Undergraduate Degree	N/A	676
	- Master Degree	N/A	480
	- PhD	680	1278
10.	Employees Status	Majority are Civil Servants	Majority are Civil Servants
11.	Highest authority before autonomy	Government	Government
12.	Highest authority after autonomy	MWA	MWA
13.	Members of MWA (in persons)		
	- Government Representatives	1	1
	- Academic Senate of the University	12	11
	- Society / Members of public	7	6
	- Employee Representatives	2	1
	- Student Representatives	2	1
	- Rector (has no vote)	1	1
	Total	25	21
14.	Programmes that are provided	undergraduate programmes, master's degrees, doctorates, and diplomas	undergraduate programmes, master's degrees, doctorates, and diplomas
15.	Position in Asia and Australia (Year 2000)	68	61

8.5. Summary of Chapter

The discussion above concluded that educational development is a priority for the Indonesian government. Education in Indonesia has experienced three different eras subsequent to political changes in Indonesia, which are the Old Order educational system (1945 – 1965), the New Order educational system (1965 – 1998), and the post-reform educational system (1998 – Now). There are, at present, a number of problems facing the educational environment in Indonesia, especially the higher education institutions, such as: limited funds, low salaries, sponsor dependency, and human resources. As was also concluded in Chapters Two and Four, these problems influence the management control systems in the studied organisations.

The studied organisations in this thesis are the two oldest and largest universities in Indonesia, and they have a long history. As has been described above, the universities have a similar history. The discussion also explained that the universities have thousands of students and employees, including teaching and administrative staff.

This thesis will continue in the next chapter with a description of the case results in the two studied universities.

CHAPTER NINE

CASE RESULTS:

MANAGEMENT CONTROL SYSTEMS (MCS)

PRE HIGHER EDUCATION DEREGULATION

9.1. Introduction

This chapter is the first of two chapters reporting the case study results and provides a description of the different components of the management control systems (MCS) in higher education before deregulation. This chapter focuses on MCS components such as strategic planning, budgeting, employee performance, appointment of managers and price decisions at Ajar University and Didik University.

This chapter is divided into six sections. After the discussion part, the second section describes the industrial relations and relations of power among the actors in the universities, followed by the third section, which describes strategic planning, including the missions, visions, goals and organisational strategies, that were applied in the universities before deregulation. The fourth section explains the budgeting practices in the universities before the government granted their current autonomous status. The next section describes the mechanisms for setting the tuition fees in the universities before deregulation. The final section provides a conclusion to the chapter.

9.2. Industrial Relations

This section briefly outlines the roles of diverse groups in the universities, such as: government, academic senates, university leaders, the faculty leaders, and academic and administrative unit leaders. This discussion is important for understanding the sources of control of the changes that have taken place in the universities.

9.2.1. Relations Among Managers

The participants from the two universities refer to the universities as a “multiversity” than as an “university”. Multiversity itself means that the faculties and departments “run” their own policies and that there is no synergy between them to achieve the university’s goals. In the universities, the department is the spearhead of education implementation, research, and public services. Participants from the two universities gave comment on relations between the Rector, Dean, and the Heads of Departments by saying that relations between them occurred only in the hierarchy but not in daily management activities. This situation has arisen due to the mechanism for the appointment of a manager, which is not undertaken by the higher officers. The managers therefore assume that they do not have to comply with the higher officers’ decisions. In addition, the different management activity systems in every faculty are also caused by the absence of regulations from the universities, which previously set the standard for implementation of daily management activities. As a consequence, faculties run on their own according to their previous habits.

Since the historical background of the universities is that they were formed as a combination of pre-existing faculties, the result of this is that there is no coordination among faculties. Some respondents from the two universities stated that, since the establishment of the two universities, they have been in federal form: for instance, there

is no coordination in financial matters between the faculties, as revealed by an officer in the Directorate of Finance in Didik University:

“Though each faculty is under one institution, called the university, they operate on their own. For example, each faculty finds their own funds in their own way since the university will not give extra funds to faculties with fewer students. At the same time, the rich faculties won’t help the poor ones. Although the university has a role as the administration centre, it only gets 10% of the income from the students. The rest is delivered to the academic departments to manage their money independently.”

The same thing also happens at Ajar University. Interviews in the universities revealed that such circumstances have encouraged “little kings” in the universities, perhaps resulting from departments’ ability to raise their own income without depending on the university as the administration centre. A respondent from Ajar University stated:

“Besides tuition fees from the students, each of departments has some income resources outside of the fees. The lecturers - who have side jobs, like teaching in other private universities, holding positions in other institutions, and so on - contribute part of their received fees to the faculty or department. Then, the fees are collected for their own needs without university recognition. Usually, it’s not reported to the university as the administration centre.”

9.2.2. Employment Status and Review of Employees’ Performance

Before the bestowal of autonomy, the employment status in public universities, including the two studied universities, was that the majority of the employees were civil servants (PNS) who were governed by the prevailing government rules.³⁰ With regard to the status of university employees, a participant expressed his opinion by saying:

“With the status of PNS, the government is an institution that holds a key role in regulating us. Starting from our appointment as PNS assigned to this university, the salary, allowances, and sanction imposition up to our termination as employees are all carried out by the government through the officials as appointed by the Minister of State Apparatus Empowerment. Even for higher-ranking officials, the President of the Republic of Indonesia him/herself carries this out.”

³⁰ This regulation is set for a certain period, reviewed within approximately five years or at certain times according to need.

The Minister of State Apparatus Empowerment (abbreviated to MennePAN) assists the President in preparing and formulating policy in the area of personnel in this country.³¹ According to the Presidential Instruction, the assignment of assistance includes: (1) organising personnel affairs in their entirety; (2) matters relating to personnel regulations; and (3) human resources development. Apart from the government, the institution that also takes part in determining policy on civil servants is the House of Representatives (Dewan Perwakilan Rakyat / DPR). However, the role of the DPR is limited to significant or key matters, namely when the policy needs to be promulgated in law. In making the law, the DPR is entitled to forward suggestions and proposals to add or change the draft rules, which are usually accepted by the political party in government. The DPR also has a very important role to play in preparing the state budget (APBN). This APBN is closely related to personnel affairs such as determining the level of salaries, allowances and so forth.

Before deregulation, the procedure for employing new educative staff was similar to that for administrative staff. These procedures were based on a quota system that was determined by central government.³² This system encouraged problems between the educative and administrative staff that were employed in accordance with knowledge priority and those that had to be accepted because of a central decision. A participant

³¹ This is pursuant to the Presidential Instruction that stipulates:

"The number and ranking grade of employees for an institution under the jurisdiction of the government is set by the minister responsible in the area of state apparatus empowerment by observing the opinion of the management of the institution concerned."

³² As civil servants, they were recruited based on the S1 certificate qualification. After two years as a candidate employee (capeg) they will be appointed as a permanent lecturer: their starting position will be class IIIA, a middle expert assistant (asisten ahli madya) (if S1), class IIIB, an expert assistant (if S2), or class IIIC, a junior lecturer (if S3), within certain age limits. The class (and position) slowly progresses to IIID (middle lecturer), IVA (lecturer), IVB (the head of middle lecturers), IVC (the head of lecturers) and so on, with a two year minimum to rise from one class to the next class. If they meet the required standard, then a lecturer can rise to the highest position, class IVD, a professor. Promotion in academic positions is possible when the related individual meets the required credit qualifications as well as having a good performance review. The amount of credits required for any position is referred to in the governmental rules. These credit points are obtained from teaching, researching, and public service (Three Obligations of University/Tridharma Perguruan Tinggi). It takes 50 points to rise from class IIIA to IIIB, for instance.

added the following comment on the regulation of personnel in the university at which he worked before the granting of autonomy by the government:

"In the personnel area, this university also had to adhere to government regulations. In fact, in the government regulations, the minimum qualification for civil servant (PNS) appointment is an undergraduate degree. In my opinion, those appointed as lecturers should hold a master's or doctoral degree. It is not appropriate that those holding bachelor degrees have to teach students holding the same degree. This has caused the ranking of the university to be low because the lecturers do not have the doctoral degree qualification and, in the government regulations, it is also stipulated that a civil servant must hold the minimum of a bachelor's degree to be appointed".

Considering the policy of the government, a number of faculties in the two universities have the financial ability to appoint several lecturers or employees that they need with funds from the faculty alone; the employees are appointed to become faculty staff by the relevant Faculty Dean using a decree. An interviewee responded to this matter by stating as follows:

"In this faculty, we need such employees and the university does not have sufficient funds to pay them. Therefore, the Faculty Dean recruited them using funds from the faculty budget alone. The appointment uses a decree from the Faculty Dean."

In addition, in recruiting employees and lecturers, the faculty and the relevant department also face a number of problems, as stated by an interviewee as follows:

"We find difficulty in recruiting employees who have the expertise required for the job to be assigned. For example, the active tradition of giving priority to family members in employment, no matter the quality thereof, has meant that we have several times been influenced by some lecturer or senior staff member to hire his/her family member to work here. The result is that, although the quantity exceeds the requirement, the quality is, however, far below the standard requirement. This tradition is still active in this university."

Another respondent added on the background of employees working for the university:

"Several employees in the faculty were recommended by lecturers who were working on a project at that time. When the project was finished, the lecturers left their assistant to us to keep them working for the faculty. Now, with autonomy operating, the faculty has issued an announcement

that the assistants recommended by the lecturers shall be the responsibility of the relevant lecturers and the faculty will not appoint the assistants to work for the faculty."

A respondent commented on the human resources policy applied by Didik University, which hinders the university in developing the quality of its students:

"Before autonomy, as a government institution, we had to accept the lecturers and employees supplied by the government. Pursuant to the government regulations, the candidates for lecturer/employee should be SI graduates. The university had to abide by this policy. However, based on such undergraduate qualifications, we do not actually have any competency to teach the undergraduate students."

A participant in Ajar University commented on the recruitment of employees as follows:

"No method is used in recruiting employees. They simply hire a candidate if the relevant candidate originates from the same village or from the family of one of the university's employees. The reason for this matter is that the recruitment of employees at this time is not based on competence nor do they consider whether or not the candidate is qualified for the work to be carried out. The result is that so many employees do not know how to do their job well."

As a result of this, when the researcher asked one of the employees in one of the studied universities about his duties and responsibilities, he said that:

"I have no idea what duties or what responsibility I carry, so I just spend my time sitting or walking around."

As a result, managers in the two universities argued that the bad industrial relations in the organisations meant that they could not exert discipline over their subordinates. Hence, this study found that the top officers in the universities principally use informal procedures with their subordinates in daily work activities. This issue will be discussed more in the Chapter Eleven. Several faculties implement various rules on sanctioning lecturers concerning their attendance. However, they are simply moral punishments, as conveyed by one of the Deputy Deans:

"Since most of the lecturers have civil servant status, we have no power to punish them with respect to their salary. We just announce the individual whose performance is poor in a faculty meeting that the lecturers attend."

Formally, the performance of Ajar and Didik Universities' administrative staff is measured by their attendance: they have to indicate their attendance twice a day, in the morning and in the afternoon before they go home. However, the attendance record is simply a piece of paper that should be signed when they come and go, which provides an opportunity to cheat. Besides, the human resource unit only collects the attendance sheet once every 3 months to calculate the incentives for employees. Thus, the administrative staff in some units that have low levels of control would sign the attendance sheet for three months in one go. A member of the administrative staff responded to this matter by saying:

"Control of attendance manually by the top officer is hardly possible because the related officer comes in later than their subordinates; sometimes they are not even in the office as they are busy with their own business."

According to the writer's observations during the field research at the university, it seems that, even though the rules state that administrative staff have to come in at 7 am, in fact a lot of offices are still empty at 8 am. This is strengthened by the comment from a Deputy Rector:

"Early in the morning I made an unannounced inspection of some units at the Central Office of Administration. The result indicated that, at 07.25, in some units less than 25% of the employees had arrived at the office. At 07.35, the work units were just occupied by around 25% of employees. This frequently occurs in this university, in which the majority of the employees are civil servants (PNS)."

On the other hand, there is different approach to measure the performance of the teaching staff. The role of faculty management in the sector of education and learning is to manage the education system, commencing from the establishment of the system and continuing until the period of evaluation. After the determination of the curriculum by

the faculty, the next principle is how a lecturer shall principally implement the curriculum in the learning process, and responsibility for this is fully given to the lecturer. The role of the faculty is to equip the lecturers with the knowledge and proficiency skills they require in order to comprehend the lecturing programme: this is achieved by the involvement of lecturers in upgrading the course on the particular learning subject.

Some managers explained how to direct and supervise the implementation of the lecturers' daily duties: they stated that, with respect to psychological aspects, they are reluctant to issue rigid orders and to supervise strictly the lecturers concerned due to the acknowledgement given to the autonomy of lecturers. As stated in the Rules of Association of the University:

"Academic freedom shall by right belong to members of the University Academy to be responsible and self-reliant in carrying out the Academic Programme."

The aspect of reluctance occurs in case they have to face a senior lecturer; therefore, an evaluation of the implementation of the learning process is conducted. A representative Dean explains:

"Concerning the issue of lecturer evaluation, so far the implementation is mainly through monitoring the attendance of the lecturers and their discipline. Such monitoring comprises: total attendance hours, total lecturing hours, including the lecturer attendance list, the students attendance list, and materials presented by the lecturer that conform to the syllabus obtained from the faculty. The first Deputy Dean also monitors the aspect of student evaluation given by the lecturers concerned, with the grades ranging from E to A, through the provision of quizzes, mid-semester tests, and final semester tests."

The following are explanations of the evaluation of curriculum implementation. A respondent explains:

"The control of curriculum implementation by a lecturer is applied through: (a) lecturing unit (SAP) of the respective subject; (b) report from

the students concerning the implementation of the lectures by the respective lecturers, related both to the material of the lectures and the lecture schedules; (c) regular meetings between faculty management and the lecturers concerned”.

A Dean explained his role in evaluating lecturers with regard to the implementation of the curriculum as follows:

“The Dean’s role with regard to the evaluation of lecturer performance is monitoring and assessing the lecturer’s performance. Sometimes the Dean warns the lecturer (mostly the senior lecturers) in a persuasive way. This approach is more effective compared to a formal method because the lecturers feel they are more appreciated and, as a result, this kind of approach really works.”

A Dean also explained:

“Commencing when I was a lecturer and continuing until now, when I have been the leader I have used many approaches to supervising the lecturers in carrying out the curriculum, starting from the non-formal or persuasive approach, such as through dialogue with them concerning their problems in giving lectures, up to the level of formal action, such as compelling them to fill in an attendance list and to write down the main issues of the lecture subject, to the dissemination of questionnaires to the respective students concerning the attitude, method and materials of the respective lecturer. However, it all depends on the person himself. Based on this data, the Deputy Dean of General Administration identifies the performance of the lecturer in order to take action. With regard to a cross-checking approach, the Dean usually directly inspects in the field to investigate directly by questioning or to see directly what’s going on.”

Another respondent illustrated the sanctions in his faculty:

“We practise moral sanctions in our faculty. We won’t get involved in any projects with a lecturer whose performance is poor. In other words, we would isolate the person.”

The universities have no mechanism to award bonuses for lecturers or employees. Besides there being no reward, the universities do not have a recognised system of punishment. Thus, a diligent employee, in fact, is not treated differently to a lazy employee. Actually, as civil servants (PNS), the employees of the universities are bound to the central government’s rules. There are sanctions that manage them: however, as

civil servants in Indonesia, it would not be easy to take action against them, since the bureaucracy is too long to bother with when a civil servant must be punished. Usually, the government only takes action if an employee commits an act that is against the law, such as criminal actions, is a member of a prohibited organisation, attacks the government, and so on. If they just do silly things, the government ignores it. Even if an employee were indeed to commit a terrible act that is against the law, the universities would just call and ask the individual to resign, which is the utmost that the universities are able to do.

Therefore, there is no difference between the treatment of a hard-working employee and one who is not. Thus, the employees are not worried about their status. There is a strong culture among PNS all over Indonesia, in general. An employee responded to his status as civil servant:

"What do I work hard for? What is the advantage if I work hard? Whether I work hard or not, there is just no difference. I will not get less payment. Even if there are some who work hard, it's simply because they have that quality."

The problem was conveyed by an employee who had worked in his institution for a long time:

"I do my best in my job because I want to dedicate myself as a civil servant who works here. As a civil servant, we receive our salary in advance at the beginning of the month and, in return, we have to work to the optimum. Unfortunately, there are few employees who think like me."

However, to review their level of employee discipline, the universities, as a part of a government unit, used the DP3 (Work Performance Appraisal List), which was completed directly by the top officer to monitor staff work quality. The DP3 was used as the basis to determine periodic rank promotion. The review was, however, not effective enough to improve employee performance, due to difficulties getting the top

officers to give as objective a review as possible: as a result, when they had to review their subordinates, they simply assigned a “good” mark to their staff. Another reason is that the review depended on the top officer’s point of view, which could become a polemic with the staff. Thus, a “not quite good” mark would cause the emergence of conflict between them. An employee said that:

“If I got a “not quite good” mark for my achievement, I would go straight to protest and ask for an explanation from my boss and, if I could, I would try to change the mark, because this review affected my rank promotion, which is also related to my salary.”

Likewise, both the top officers and the subordinates thought that the performance review was very subjective since it relied simply on the top officer’s perception. Hence, the head of a sub-section explained the monitoring of his subordinates’ performance:

“When my subordinates’ performance was poor, I would warn them in a ‘family atmosphere’. If they ignored the warning, I just submitted the problem to the university.”

9.2.3. Management Structure

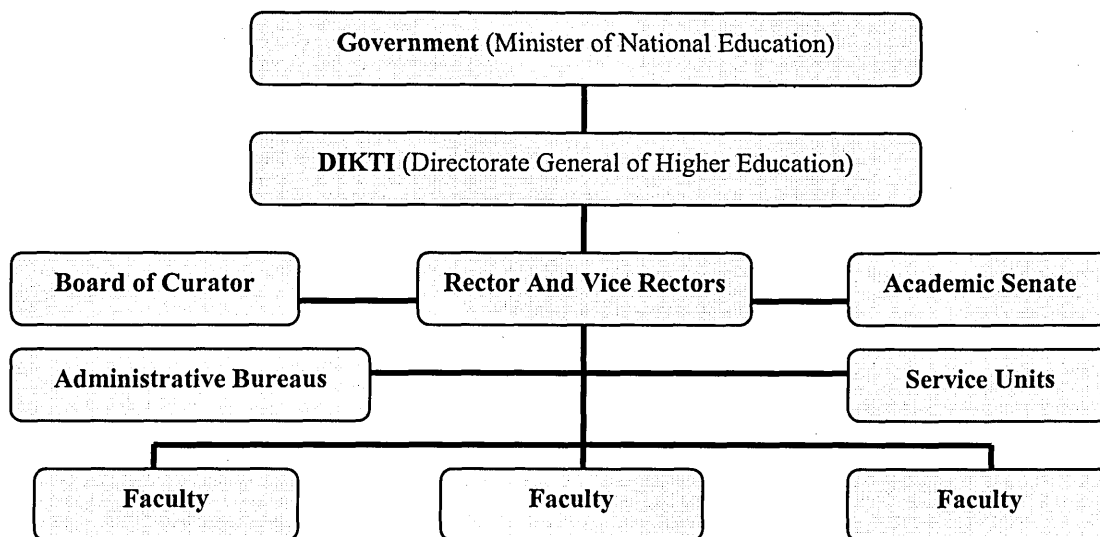


Figure 9.1 : State Universities’ Management Before Deregulation

Figure 9.1 above illustrates the organisational structure of the two case universities before the higher education reforms. Before autonomy was granted by the government,

all Indonesian state universities, including the two studied universities, had the same organisational structure that had been designed by the government (e.g. the Minister of Education and Culture of the Republic of Indonesia (now Minister of National Education)) through decree No.0133/0/93 issued in 1993. Apart from regulating the organisational structure, this decree also regulated the job descriptions of the managers in the two universities.

According to the decree, the organisational order of the universities was to consist of: the Rector and four Assistant Rectors as the leaders at university level, directly responsible to the Minister; a Dean and Assistant Deans as the leaders at faculty level; the Faculty Senate as the highest normative body in faculties; the University Senate as the highest normative body in the universities; the Administration Bureaus; a technical executor's unit; and a guidance board.

The Rector managed activities with regard to education, research, community service, student academy development, administrative staff and environmental concerns. Pursuant to the Decree of the Minister of Education and Culture, the university was an organisational unit, part of the Department of Education and Culture. The Rector was the university leader and was responsible to the Minister of Education and Culture. The four Assistant Rectors were responsible for the academic, general administration, studentship, cooperation, and planning and development fields, respectively.

The University Senate comprised: regular professors, extraordinary professors, university management, Deans and Deputy Deans, whose appointment was stipulated by a decree from the Rector with the approval of the University Senate. The Senate had the following main duties: (a) formulate academy policy and university development;

(b) formulate policy with regard to assessment of the prestige and proficiency of the academy as well as the behaviour of education staff; (c) formulate the norms and standards of the education system, research and community service; (d) discuss and approve the university budget plans; (e) evaluate and approve the proposal of the tariff structure and fund management procedures derived from the community, which are formulated by the university management before they are proposed to the Minister of Finance through the Minister of Education and Culture; (f) assess the university management responsibility regarding the stipulated policy; (g) formulate the regulations of university academic freedom; (h) provide inputs to the Minister of Education and Culture regarding the candidates proposed to be appointed as Rector and lecturer to fill the positions of academic levels above lector; (i) enhance the applicable norms for academy members; (j) propose and confirm the awarding of Honoris Causa Doctor to the persons concerned that have met the requirements; and (k) conduct Doctoral Promotion tests. The administration bureaus consisted of: a bureau of academic administration; a bureau of finance administration; a bureau of general administration; a bureau of studentship administration; a bureau of planning administration and information systems.

Each faculty was managed by a Dean who was assisted by three deputies: a deputy in the academic sector, a deputy in the general administration sector, and a deputy in the student affairs sector. The Dean managed the education programme, research and community service, and developed the academy staff, students, and administration staff. The Faculty Senate was the highest normative body in the faculty and had the authority to interpret university policies and regulations for the faculty concerned. The Faculty Senate comprised: regular professors, extraordinary professors, faculty management, the Heads of Departments, and regular lecturers in the faculty that had at least the position

of Junior Head Lector. The Faculty Senate was chaired by a Dean. The main duties of the Faculty Senate were as follows: (a) formulate the policy of the faculty academy; (b) assess the prestige and proficiency of the academy as well as the behaviour of the lecturers; (c) formulate the norms and standards of the implementation of faculty policy; (d) assess the responsibility of faculty management regarding the implementation of faculty policy as mentioned in point (c); (e) provide inputs to the Rector regarding the candidates for Head and Secretary of the Department as well as the heads of laboratories; (f) meet the requests of the Dean in the form of inputs and recommendations to assist the faculty.

9.2.4. Appointment to Management Positions

This sub-section further discusses the appointment of management positions (such as: Rector, administrative managers, and managers in faculties) in the two studied universities before the grant of autonomy status from the government.

In term of Rector appointment, the two studied universities had a similar approach to appointing their Rector, which is because, before the bestowal of autonomy, both of these universities had to abide by government regulation No.30/1990 concerning higher education, which was then renewed by government regulation No.70/1999.³³

Before deregulation, the Rectors of the universities were appointed as well as dismissed by the President on the suggestion of the Minister of National Education, another Minister, or another head of government, after receiving consideration from the Senate of the related university. As also occurred in every public university in Indonesia, the

³³ The regulations stipulated that “the Rector of a university/institute as organised by the government is appointed and terminated by the President based on recommendations from the minister (of education), other ministers or other government agencies upon obtaining consideration from senate of the university/institute concerned”.

University Senate would hold a meeting to determine three candidate Rectors, who were then submitted to the Minister of National Education. The Minister would then choose and appoint one of them. The Minister had the prerogative to make the decision.

A participant from Didik University shared his experience of the role of officials in the university and faculties with regard to the election of a Rector:

"Before the change of university status, the Rector was elected only by members of the University Senate, whose members are the professors and structural officials at the office of the university head (Deputy Rector) and faculty (Dean). Such a mechanism gives the impression of an elite and closed system, and so many campus members, apart from the University Senate, do not know about the vision, mission, and orientation of the candidates for the position of Rector, who are competing to manage the University in the years to come. In other words, the applied approach is the so-called elite approach. In fact, each member of the campus is a stakeholder; they have the same right to invest in campus education, so they also have the right to participate in determining the future of their campus."

Another respondent from Ajar University supported the comment from his counterpart with an explanation of his opinion as follows:

"Before autonomy, Rector selection was not open, which was against democratic principles of openness. It was like "buying a cat in a sack" when we chose our leader. We had no idea about the quality of the Rector or his programmes. In the reform era of today, the Indonesian people demand democratic principles in every sector. The university is expected to be a moral force in Indonesia, and must follow the principles."

Another respondent said that:

"The previous approach was not transparent; the final decision was made by the Minister of Education and Culture. We did not have any idea about the capability of the newly-elected Rector. How could we cooperate with a person whose capability was still unclear?"

An examination of some the universities' documents reveals that the government frequently appointed a Rector based on political affiliation: this occurred where the government disapproved of the candidate Rector who won the vote of the University

Senate. This situation caused conflict between the government-appointed Rector and the University Senate. The differences in opinion sometimes extended to the students or university employees, and disturbed the teaching and learning process; for example, during the Rector elections of 1967 and 1974, students in Ajar University who were opposed to the government appointments carried out a demonstration.

Other management positions in the universities relate to administrative units. According to the regulations concerning civil servants, the Rector, as the head of the institution, is the official in the university most authorised to choose a civil servant for filling a certain administrative position, such as Head of Bureau, Head of Unit, and so on. The appointment of someone to fill a post is closely related to the ranking grade as set for that position, so that a civil servant (PNS) having a higher rank cannot be directly subordinate to another PNS who has a lower rank. In appointing an official in this university, the university management sets the ranking grade that includes seniority in rank, job title, education and job training, years of service and age.

While, in term of appointment of the faculty leader, the two studied universities have a similar approach to appointing a Dean. Before the granting of autonomy, a Dean was selected based on a democratic system through voting by all lecturers in the related faculty. In this matter, the Rector, as the highest leader in university management, simply approved the result of the election that the faculty executed by issuing a letter of decree. This system affected routine activities in the universities where the Rector was unable to manage the Deans, who were under the Rectors administratively.

A manager responded that:

“Though a Dean is under the Rector administratively, the Dean is not selected by the Rector but by the members of the faculty. The Deans therefore assume that they are not obliged to abide by the Rector’s decisions and are not beholden to the Rector as the highest executive leader. The Dean is responsible to the members of the faculty who gave him the mandate to lead them.”

Before autonomy, the appointment of a Deputy Dean was the prerogative right of the Dean. The Dean selected a person as the Deputy Dean, and then the Rector approved it and issued the letter of appointment. The Rector had no power to reject the Dean’s decision.

Finally, the Head of Department, who is hierarchically below the Dean and Rector, is selected by the lecturer board. Although the Head is, in fact, under the Dean and Rector administratively, the Dean and Rector have no authority to set aside the result of the appointment by the board. Lecturers have the authority in the appointment of a Head of Department. As a result, the Head did not have an obligation to obey the higher authority, the Dean. The Dean was also unable to replace the Head of Department. A Deputy Dean responded to the phenomenon as stated below:

“I have found that it’s very difficult to manage the Heads of Department to implement policies that the faculty has determined.”

9.3. Mission, Vision and Organisational Strategy

As part of a government unit, before autonomy, the determination of the vision and mission of the studied universities were inseparable from government intervention. The universities had to follow the vision and mission that the government decreed. Hence, the universities had similar visions and missions that had been provided by the government. A participant commented on this as follows:

“In the past, the vision and mission of the university were not clear as all activities were unilaterally decided by the government. We can safely say

that the vision and mission were imposed. The university had to follow whatever the government decided. Students, lecturers and other people at the university might not have agreed with the decision, but the university had no power to challenge it, we just had to follow whatever the government decided."

A government document provided evidence that the missions and visions of the studied universities and other state-owned universities had not been re-modelled since 1989. The universities' strategic plans were also the results of government decisions.

9.4. Budget

Since the universities had the status of government institutions, they were obliged to hand over all of their income, which came mainly from the tuition fees from the students of all of the departments which the university owned, donations and charities, and collaborations with other parties. As government service units, the universities received a significant amount of subsidy from the government. Therefore, the government was the party that played the most important role in the activities of the university and universities had to comply with government regulations in financial management, personnel management, the appointment of rectors, and some other areas.

As was stated by a former Assistant Rector in Ajar University:

"Even though the amount of money provided by the government is still far from enough, the biggest percentage remains from government assistance. Moreover, the state universities alone cannot look for additional money by themselves at their own will. They have to report, even hand over the money to the government, before it is returned to the universities concerned to help with educational costs. However, this way is felt to be burdensome at critical times, when all kinds of costs are swelling. That is why, since the economic crisis that started several years ago, the government aid for operation that was originally considered sufficient is felt to be inadequate."

Even though the universities had to hand over their income to government, the interviews with lower level managers in the two universities found that most donations, and income from charities and collaborative activities were not reported to the central

government. It found that the departments, as the working units, kept the income for their own needs.

The central government, which acted as the policy decision maker, had the greatest role in determining the budget for the university. Therefore, the Rector of the university, and also the Rectors of any other public universities (PTN), along with the Minister of National Education, had to struggle with the government's internal environment and work hard to lobby within the government. The greatest role in setting the education budget was in the government's hands, as stated by a manager from Didik University:

"As a PTN, we are part of the government where they decide everything via a budget proposal process."

The universities' budgets were affected by the 'development programme' that the government wished to be implemented. A manager explained this as follows:

"Our budget very much depends on the 'development programme' that the government wishes to be implemented. For example, when the government wishes to develop oceanography, the budget related to it would thus be given a higher priority by the government than others, even though the others are highly urgent".

At this time, the state universities used the traditional system of budgeting, which consisted of Incremental Budgeting. To understand the reasons for the use of this system, a respondent explained:

"The previous traditional system that university and other government institutions professed used in accordance with the demands of the era, which put simplicity as a priority and achievement was measured from how far the university could spend the budget as it wanted. If we couldn't spend it, they thought we had failed to improve our performance."

Meanwhile, the universities used a traditional system to prepare their budget. A Deputy Dean commented on budget issuance before autonomy as follows:

"A long time ago, before autonomy, the budget was issued on an historical basis with respect to previous years' budgets. The budget amount was

always at the same level. There was not much change year by year. We were incapable of raising the level for a necessary item even though indeed we needed it."

Based on regulations from the government, the universities divided the budget into two parts, firstly, the government routine budget (DIK), which was intended to include the operational fund of the university; and secondly the government development budget (DIP), which was used for development, investment and progress, including the added operational fund. The universities were not given the freedom to manage both the money from the government and from society. A Dean explained both budgets from the government as follows:

"The development budget shows long-term plans and budgets for permanent assets such as buildings, equipment, vehicles, tools, and so on. The development budget is for expenses that could be of benefit for more than one year and could increase the assets or the wealth of the government and also would increase the routine budget for operational funds and maintenance. The routine budget is for expenses that are of benefit for one year only and cannot add to the assets or wealth of the government. It is called "routine" since the character of the expenses is that they exist repeatedly every year, like general administration expenditure and operation and maintenance expenditure. The routine budget includes income from tuition fees."

Almost the entire DIK (85% - 90%) is allocated for personnel expenditures, and the remaining 10% to 15% for operation and maintenance. The DIK is not negotiable since it is directly allocated by the Ministry of Finance (MOF) based on the number of teaching and administrative staff. Salaries are directly allocated by the MOF to individual staff.

Management of the government investment budget (DIP) should comply with rigid regulations, uniformly applied to all government institutions. A proportion of the DIP, perhaps 20% to 30%, is actually allocated for recurrent expenditures. Flexibility between line items does not exist, and the main objective is the administrative

conformity between the budget and realisation rather than effectiveness. Allocation is mainly determined based on the various performance absorbing and disbursing the allocated budget, and direct negotiation between each public institution in Indonesia, including the studied universities, and the Directorate General of Higher Education Institution (DIKTI), MOF and the National Development Plan Board (Bappenas). Performance is measured based on input indicators such as the number of staff, books, equipment, or space.

Furthermore, the universities had prepared a specific form for the preparation of the budget. It was therefore hardly possible to eliminate the items that had been received or the existing expenses in the budget structure, though, in reality, it might be that a certain item was no longer relevant to be utilised at that point. The universities budget was managed based on the character of income and expenses, such as income from government, or expenses for salaries, for purchasing goods, and so on, and was not based on the desired objectives of the expenditure. Therefore, it was impossible to review performance accurately, because the only measurement was on trustworthiness when using the proposed funds. However, problems still remained in the budget system. One of the officers of the Audit Board said that:

“The traditional budget, which was used before the bestowal of autonomy, was unable to reveal how much of the funds were spent on each activity, and the budget even failed to give the information about the cost of the activity plan.”

The budget preparation of the universities is conducted using a bottom-up method, namely the respective unit prepares the budget for the unit. Before autonomy, the universities had no plan/annual work programme that coordinated among the units in the university. Each of the departments created their own work plans without any coordination with other units. However, in fact, from year to year the budget of each

unit was of a similar amount. The Head of the Bureau as well as the staff just followed the previously provided numbers. In addition, a manager commented on the previous budget system:

“Before, we practised line item budgeting (previous-year budget). We had to face such a lot of red tape to make decisions. It reduced bottom-line creative ideas and obstructed top-line directed information.”

The budget only increased or decreased the Rupiah amount of previously available items by using the previous year's data as the basis for matching the amount of increase or decrease without any deep review being made. Not only could this kind of approach not guarantee to fulfil the real needs, but it may also have caused continuous mistakes, because the universities never knew whether the previous year's expenses, used as the basis for the budget arrangement of the current year, were already based on needs. Interviews demonstrated that the universities frequently did not consider the economic concepts of efficiency and cost-effectiveness when they managed their budgets. This opinion is supported by a manager who stated that:

“To date, the figures for the budget in this unit are only a recitation to commit to memory: these figures do not undergo many changes every year. The changes were only around 10% compared with the previous year.”

Therefore, if at the end of the budget year, there was a budget surplus, the allocation of which was forced towards activities that were not too important. The activities that followed were simply meant to spend the remaining budget. In response to these matters, a respondent said that:

“We must spend all of the arranged budget because, if that's not done, it will affect the allocation in the next year's budget. The government would decrease the next budget allocation.”

This situation occurred because the budget performance was reviewed based on the amount of the budget that was used and not on output considerations resulting from the

activities undertaken and the desired performance targets. A further result was a lack of motivation for the universities to use the budget funds efficiently.

When calculating the state budget amount, especially for the education sector, the Bappenas played the most important role, as the DPR would approve the education budget proposed by the government. In recent years, merely half of the budget proposed by the DIKTI, along with public universities, to Bappenas was approved.

9.5. Setting the Tuition Fees

The two universities have two types of student, namely, students taking the S1 regular programme, for which recruitment is made through a national examination, and those taking the irregular programme, for which recruitment is made by the respective universities. The government does not give any subsidy at all to the irregular programme.

The government plays an important role in setting the tuition fees for the students. The government, through the Ministry of Education, decides how much of the tuition fees have to be paid by the students. The universities, as the field executors, have absolutely no power to change this decision. Though the tuition fees provides just 1/9 of the amount that the universities need, the universities have to accept this situation. A manager gave comment on this:

“For the last few years (since 1995), the Government has not increased tuition fees. In fact, operational costs are getting higher for several reasons. Actually, the university takes on so much to raise the required funds. However, to fulfil the obligation for citizens to get a decent education, the Government has no desire to raise tuition fees.”

Moreover, a participant commented on the tuition fees, which are, by necessity, standard, by saying:

"This University, as a state-owned educational institution, has to support the Government programmes to develop the mentality of the nation."

There have not been many changes made to the mechanism by which the universities determine tuition fees. Concerning how this is implemented, a top officer in a department explained as follows:

"Before autonomy, the determination of tuition fees for the S1 Regular Programme was still decided by the Government through decrees of the Ministry of National Education. If I'm not mistaken, tuition fees for the S1 Regular Programme have not changed for the last ten years, more or less. Even though the tuition fees are below the level that we require to undertake the teaching, we, as the working units, simply accept the government's decision."

9.6. Summary of the Chapter

In Indonesia, especially before the era of President Soeharto, the top-down style of management not only drove government bureaucracy in Java but also permeated the scattered university system. Centralisation caused universities to be extraordinarily dependent on the government. The universities' employees were civil servants that were appointed by the government. The Universities' Rector and Deputy Rectors were appointed by the government. In addition, this study found that before the granting of autonomy, the number, pay level and occupations of staff in the universities and all national universities were also controlled by the government. On the financial side, financial regulations for the universities were basically identical to other government units in which the budget used previously available items by using as its basis the previous year's data. Prior to the changes in 1999, the universities had a centralised system of resource allocation in the hands of the government with the managers having little financial autonomy.

Moreover, the government, as the major fund provider for the universities, dominated the form of controls over and within the universities. At this time, as a government unit,

the universities had a long organisational hierarchy above the university management that comprised ministries (e.g. Ministry of National Education, Ministry of Finance), government auditors (e.g. BPKP), government planning body (e.g. Bappenas), and parliament that influenced the universities' day-to-day activities.

The findings above indicate that the central influence from government caused the universities not to have the freedom to manage their day-to-day activities: they just altered and edited the previous year's budget to prepare the budget for the current year. Hence, there is evidence in this study that there were some characteristics of the budget in the universities before the granting of autonomy, such as a lack of participation and irrelevance to day-to-day activities, due to the universities managers' lack of power to arrange their own policies over the government's plans. As a further result, this study found that it was not surprising that in practice, the managers had manipulated the use of the budget.

Following the discussion of the management control systems in the two universities before deregulation, the next chapter describes the MCS after the granting of autonomy to the universities in order to ascertain which parts of the universities' systems have changed.

CHAPTER TEN

CASE RESULTS:

MANAGEMENT CONTROL SYSTEMS (MCS)

POST HIGHER EDUCATION DEREGULATION

10.1. Introduction

This chapter is the final of the two chapters on the case results and provides a description of the different components of the management control systems (MCS) after the higher education deregulation. This chapter focuses on MCS components such as strategic planning, budgeting, employee performance, appointment of managers and price decisions at the Ajar University and Didik University.

This chapter is divided into six sections. After this introduction section, the second section describes the industrial relations and relation of power among the actors in the two studied universities after the deregulation, including new employment status, new management structure, and the appointment of managers. The next section describes strategic planning, including the new missions, visions, goals and organizational strategies that have been applied in the universities since deregulation. The fourth section explains the new budgeting practices in the universities since the higher education reforms. The fifth section describes the mechanism for setting the tuition fees in the universities since the reforms. This chapter closes with a final section that provides a conclusion to the chapter.

10.2. Industrial Relations

This section will discuss the relationships between the managers in the studied universities after the granting of autonomy by the government. After the granting of

university autonomy, the two universities began to unify the academic units under their control. There are several ways that have been and will be used by the universities to do this; for example, the Rector appoints the managers under him, such as Deputy Rectors, Deans, Deputy Deans and so on.

10.2.1. Employment Status and Review of Employees' Performance

Human resources are the most valuable assets of a higher education institute and are assumed to be more important than in the industry, business, and government sectors. As has been discussed in the previous chapter, the two universities have experienced bad industrial relations within the organisations when the managers could not exert discipline over their subordinates.

To overcome this issue, there are several things that the universities are doing, namely:

(1) since the bestowal of autonomy to the universities, the Directorate General of Higher Institutions (DIKTI) has implemented a “zero growth” policy, which means that an autonomous university is not allowed to employ more civil servants (PNS). The universities therefore appoint new non-civil servant employees whose status is as university employees. (2) Under this policy, the universities are waiting for all civil servants in the universities to retire.³⁴ If all of the civil servants were to retire, the remaining employees would be lecturers and non-civil servant employees that the universities appointed. The civil servants who are still employed today still work in accordance with the government-determined civil servant rules. As a Deputy Rector in Ajar University stated:

“We are waiting for all of the civil servants in the university to retire. If they all retired, those left are simply university employees. I have no idea

³⁴ According to civil servant's Law, every civil servant has to work for a minimum of 20 years before they retire or resign, which is why the policy to wait until these civil servants retire would take such a very long time.

when this will be. Perhaps when my grandchildren become college students."

However, the employment problem is how to change the status from civil servant (PNS) to university employee. There are several reasons why civil servants in the universities have not changed status to become university employees, which are: firstly, personal reasons, such as they want to work until they retire to get a pension; secondly, the salary is not attractive, the benefits are unclear, and there are uncertainties concerning salary increases; and thirdly, the contract is not attractive, and there are uncertainties concerning tenure. One of the participants compared his salary with his former students as follows:

"I have been a lecturer for more than 30 years and have attained the highest position in academia, which is professor. However, I receive a salary lower than that of my former students on entry point salaries where they have just graduated and have got a job in one of the consultancy offices."

Another respondent added that:

"A professor's salary per month is Rp. 2 million. It's only just enough to pay the electricity bill and the phone bill. So, how do these professors/lecturers meet their cost of living?"³⁵

Therefore, if we talked about employment status, some civil servants in the universities that were interviewed stated that, if the payment conditions were to remain the same, they would decide not to accept a new status as university employee. Through change in employment status, the universities would then have more control over their employees, and while they would be happy to be under university control as long as they were to

³⁵ The Director General of Higher Education Institutions of the Republic of Indonesia (Kompas, 20/6/2003) stated that, to make a decent living, a doctor who devotes himself to being a lecturer should get at least Rp. 7 million/month. Exchange rate: 1 GBP (£) = 15,000 IDR (Rp).

receive a high enough salary, if their salary were to remain as low as when they were civil servants (PNS), they would refuse to be under the control of the universities.

Because of the difficulties found in changing the status of civil servants into university employees, there are now three kinds of employee in the universities since the bestowal of autonomy, namely civil servants, university employees, and casual employees. A public university as a State-Owned Legal Board (BHMN) would be better to gradually change its employee status from civil servant (PNS) to contract-based university employee. A Deputy Rector said:

“For non-civil servant employees, every two years the contract would have to be renewed. Though it’s going to cause trouble for the university, yet it will make it easy to control all employees in the university.”

The universities would then have more power to practise an employee reward system for good achievement and reprimand those whose achievements are not good. The universities applies a contract system for the non-government employees, which facilitates the faculty management in the supervision of their performance. A Deputy Dean said:

“We give more supervision to the university employees and casual employees. We don’t appoint them as permanent employees, but we do apply a contract system that is extended on an annual basis. This system has advantages and disadvantages. Fortunately, as the Deputy Dean in General Administration I can fully assess them. I can report to the university about their performance. As a result, the casual employees cannot be promoted to university employee, whereas the university employees can be changed into casual employees and his/her salary will be decreased. In other words, for promotion, the non-government employee has to achieve good performance. If not, I will not promote them. For example, out of 24 casual employees I have only proposed 18 to be promoted because the achievement of the rest has not been good and their performance does not meet the required standard.”

Finally, this issue encourages the impression that, if the intention is to change employment status at the universities, they would have to have great financial resources

to contract the lecturers, which would mean that the lecturers would work full time in the universities. This matter, which has become an obstacle to changing the employment status of civil servants (PNS) in the universities, shows that a change of status is not as simple as all that.

10.2.2. Management Structure

After deregulation, the organisational structure in the universities was different to that before. The issuance of Government Regulation No.152/2000 shows the change of status of Didik University into its new status as a State-Owned Legal Entity (BHMN). The change of Didik University's organisational structure has also been influenced by the use of Organisational Rules that have been approved by the university's board of trustees (MWA).

At this time, the autonomous universities have the right to decide their own structure. As result, the two studied universities now have different organisational structures to each other. However, since MWA in Ajar University has not agreed the university's organisational rules, and hence differs from Didik University, Ajar University has not implemented a new management structure.³⁶ Figure 10.1 below shows the new organisational structure of Didik University.

³⁶ At the time of the research, Ajar University continued to use the old organisational structure that was discussed in section 9.2. However, Ajar University management and the board of trustees (MWA) are still in discussions to design a new organisational structure.

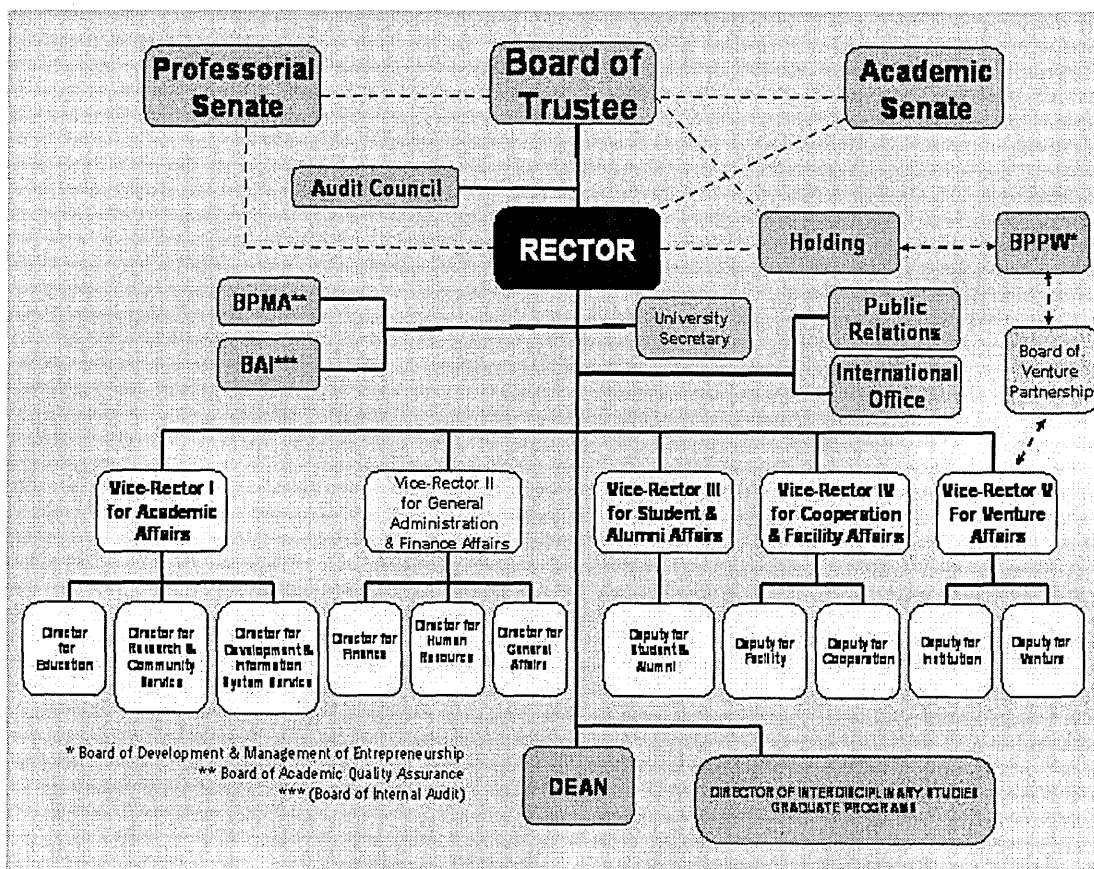


Figure 10.1: The Organisation Structure of Didik University

Since the status change, however, the MWA, the Academic Senate of the University, the MGB (the Assembly of Professors), the Audit Board, and the new University Leaders have been set up. After becoming autonomous, the names of many positions were replaced and directorates were formed under the Deputy Rector. Examples of name changes are 'Assistant Rector' to 'Deputy Rector', 'Assistant Dean' to 'Deputy Dean', and so on.

Another change is the formation of a brand new institution, the Audit Board. Its duties are to cover matters as follows: to carry out a frame of reference internal audit that is executed by an auditorial institution; to evaluate the annual audit plan made by the auditorial institution; to learn from and to review the results of the internal and external audits; and to report the work to the MWA. All expenses incurred in the implementation

of these duties will be borne by the university from its budget. By MWA approval, the Audit Board has the right to appoint and hire professional audit staff for auditing the university in terms of education, students, finances, as well as manpower (employees), if necessary. The Audit Board is responsible to the MWA.

The University Senate and the Faculty Senate changed their names to the Academic Senate of the University (ASU) and the Academic Senate of the Faculty (ASF). In daily activities, ASU duties are now more extensive than before and cover the following: to provide input for the Minister over MWA performance reviews; to set the academic policy of the university; to confirm degrees; to develop the university; to set the policy over achievement reviews and academic ethics; to develop the personality of academics; to formulate standards and measurements of university coordination; to provide input for the MWA based on the review of university leadership performance in academic matters; to formulate the rules for the effecting of academic freedom and scientific autonomy; to provide input for the university chairman in arranging the strategic plan as well as the work plan and annual budget; to control academic quality in university coordination; to give input, advice, and warnings to the university chairman in managing the university in the academic field; and to formulate regulations concerning campus life. ASU membership consists of the Rector and Deputy Rector, the faculty Deans, the Head of the Post-Graduate Programme, representatives of the faculties, and the Head of the University Library.

The duties of the faculty management comprises the following matters: (a) secure the activities of the academic programme managed by the faculty; (b) general administration programme in managing all the resources within the faculty; (c) management activities delegated by the university management; and (d) facilitate the

welfare of students, as delegated by the university management. At the faculty level there are departments, that is the academic executor elements in a faculty that implement academic and/or professional education in one or part of one of the science branches, in technology and or in certain of the arts. Each department consists of: (1) the head element - the head and secretary of the department; and (2) the academic executor element - lecturers. Thus the departments are the faculty units that act as the coordinators of education, research, and public services directly. As we saw in the section on organisation background, the lecturers are the direct executors of education; they implement the curriculum in the study learning process with the students.

One of the largest changes in the universities' management structures is the involvement of stakeholders (the government; members of academic staff, consisting of lecturers, employees, and students; and the public), who are united in the MWA. The MWA is the highest authority in the universities. The Rector of the universities, as the top executive leader in the universities, is appointed by and responsible to the MWA. The MWA has the right to make Rules of Association (Anggaran Rumah Tangga / ART) that cover the whole implementation of the activities in the universities, for example, how the Rector is elected and appointed, the Dean of a faculty's authority, and even academically related matters.

As can be seen in the Figure 10.2 below, the role of the MWA involves the following aspects: to approve the university's strategic plan, and also the university budget and its amendment, to maintain the financial health of the university; to implement general control and supervision of the university management; together with the management of the university, to compose and present the annual report to the Minister; to assess the performance of the management of the university; and to handle the resolution of

university issues at the highest level. A participant used the example of a company to describe autonomous universities:

“ If we imagine autonomous universities as a real company, which means as a State-Owned Legal Board (BHMN), then the universities’ Rector is Managing Director, the MWA is the Board of Shareholders, and the government is the greatest shareholder and fund provider. ”

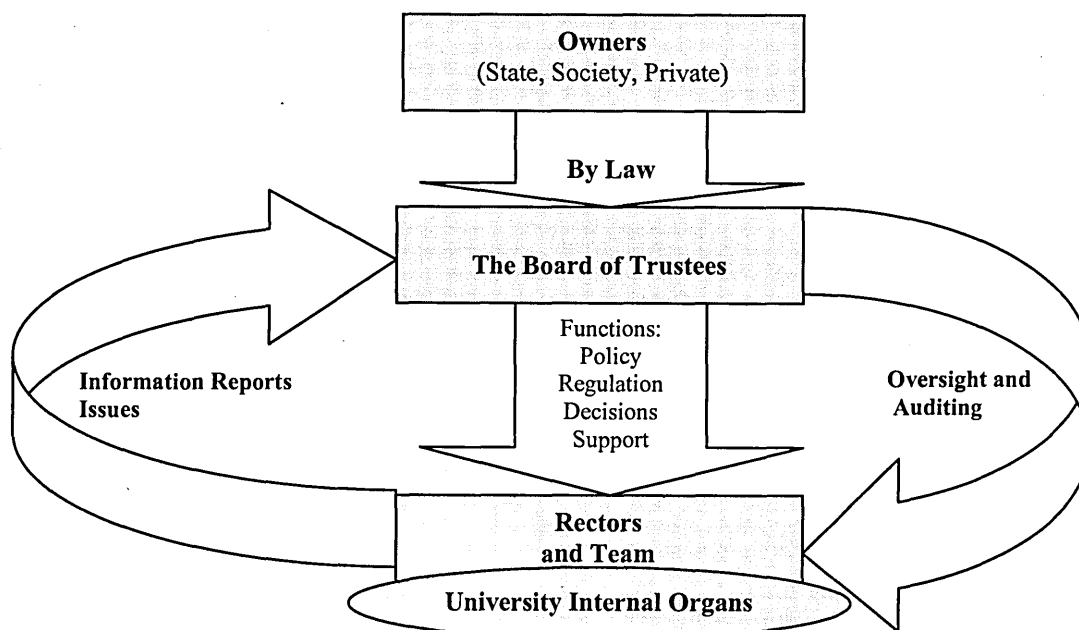


Figure 10.2 : The Role of The Board of Trustees in the Universities

The membership of the MWA is important in order to enable the universities to provide accountability, so it must represent the stakeholders in a broad sense. The MWAs in the universities occupy a constituency of members that represent the government, lecturers, employees, alumni, society and students: the number of MWA members is different in every autonomous university. The MWA in Ajar University has 25 members, while the MWA in Didik University has 21 members (see Table 10.3 below). MWA membership is dependent on a number of factors, such as the different numbers of faculties in the universities, the number of employees, the number of lecturers, and so on. MWA members have equal voting rights, except in the election of the Rector: in this case, the members from the ministerial element cast 35 percent of the overall votes.

Stakeholders	Ajar University	Didik University
Government Representative (Minister of National Education)	1 person	1 person
Academic Senate of the University	12 persons	11 persons
Society / Members of public	7 persons	6 persons
Employee Representatives	2 persons	1 persons
Student Representatives	2 persons	1 persons
Rector (has no vote)	1 person	1 person
Total	25 persons	21 persons

Table 10.3 : Members of the MWA in Ajar and Didik University

10.2.3. Appointment to Management Positions

This sub-section discusses the appointment to management positions (such as: Rector, managers in faculties, and administrative managers) in the two studied universities after the grant of autonomy status from the government.

Since autonomy, government regulations require Rector selection in the two studied universities to be more democratic, transparent and accountable (Didik University, 2003).³⁷ Previously, choosing a new Rector was the government's prerogative right. Today, the selection of the Rectors in the two studied universities involves the participation of stakeholders (the government, and "academy members", comprising lecturers, employees, students, and the community) that are united in the MWA. The University Rector is appointed and discharged by the MWA through voting: the ministerial element is 35 per cent of all votes; the remaining 65% are divided evenly between the other members, who consist of representatives of university employees, non-Professor lecturers, Professors, alumni, the public, and students.

In the beginning, the MWA forms the Rector Selection Committee that has the duty of selecting and evaluating Rector candidates, either from inside or outside of the university, through an open competition mechanism. The committee helps the ASU and

³⁷ According to government regulation No.152/2000: "The procedure for electing a university Rector shall be applied through the formation of a committee by the Supervision Board (MWA) to select the Rector candidate through an open competition mechanism, both on an external as well as an internal basis. Rector selection shall be conducted in an open meeting by the Supervision Board led by the Chairman of the Supervision Board. The candidate for Rector who has the largest vote shall be appointed as the Rector based on the decision of the Supervision Board."

the MWA to obtain “requirement and administration data resume”³⁸ from each candidate for the position of Rector, which will help both institutions execute fit and proper tests more effectively.³⁹ The ASU arranges fit and proper tests (through interview) for all candidates selected by the Rector Selection Committee to select half of the Rector candidates to be forwarded to the MWA. The MWA selects a Rector to manage the university for the next five years. The Board of Professors has a share in the Rector selection process, by making report for the MWA as a consideration in evaluating the performance of the Rector candidates. In addition, the Rector Selection Committee is also involved in the process of gaining public responses to the seven Rector candidates by placing advertisements in print media.

In the selection process, the candidate Rectors are obliged to deliver their vision and mission as well as their strategic plan for the future of the university, in one open meeting of the MWA that is chaired by the Head of the MWA. At the final stage of the election of a Rector, the Rector candidates undergo a public debate to help develop both a transparent climate and also mass participation from the university. Some respondents commented that this public debate shows which of the candidates would be the more capable Rector. The programme is also continued by discussions with the participants.

An informant in Ajar University commented:

“This public debate is completely new. We really feel that the candidates concerned are being seriously tested, even by the public, students, lecturers, and staff. We will learn the quality of the Rector candidates. This debate will show who has the better leadership skills. Employees also

³⁸ Government rules and regulations of association of the university regulate some points to be followed by a candidate for the position of Rector. The first requirement is that the candidate shall be an S3 graduate from a credible and recognized university. Secondly, the candidate must have experience in education institution management, and at least three years experience in a research institution. Thirdly, the candidate must be of Indonesian nationality. Fourthly, the candidate must have integrity and be highly committed to being a good leader. Fifthly, the candidate must have a spirit of entrepreneurship. Sixthly, the candidate must have a wide insight into the scope of higher education.

³⁹ Government Regulation No 152/2000 and No.153/2000 stipulates that the Academic Senate of the University is the supreme normative board at university, having rights to propose university Rector candidates to the MWA. Based on this, the Academic Senate of the University is assumed to have an interest in fit and proper tests for Rector candidates.

participate in the election of their Rector, even though this is only through their questions raised during the debate."

The Rector selection process is supported by the availability of technology owned by the university, such as through the development of closed-circuit television (CCTV) and the Internet so that students, society and journalists can monitor the whole process of the selection of the Rector live. The employees in the universities support this new approach to Rector selection because of the advantages of the approach. As a respondent from Didik University commented:

"Rector election on a direct and more open basis is more accountable, because the related candidates have the task of sharing their visions, missions, and work programme orientation with the public, and so the public will know who the candidates in such competitions are, and also know the commitment, competency and capability of the respective Rector candidates."

Another participant from Ajar University added:

"The new systems will be applied for Rector election as the basis of public control of the Rector and the level of bureaucracy, in case there are any problems of inconsistency or issues which do not conform to the related commitment. This public control plays the role of a check function and a balance for Rector policy, mainly in the strategic policy that influences and has a direct relation to the campus. Based on this, the direct election of the Rector will form the basis of university public management organized on a transparent, democratic and accountable basis. However, the university will face hard and varied challenges in the years to come."

In summary, Appendix 10.1 and Appendix 10.2 at the end of this thesis provide a diagram of the Rector election process in Didik University.

In term of the appointment to faculty officials, in Ajar University, this study did not find many changes to the mechanism for selecting a Dean. The faculties in this university still use the existing mechanism: all of the lecturers in the related faculty gather to vote (one man one vote), which continues when the appointment of a Dean is approved by the Rector. A respondent in Ajar University explained the reason why this mechanism is

used in this university while Didik University has applied a new approach to the selection of a Dean.⁴⁰

"Unlike our counterparts in Didik University, we still don't have an Organisation Rule, which is the basis for the university to select a Faculty Dean. Without a legal basis such as an Organisation Rule, the Rector is incapable of making any changes."

On the other hand, Didik University has selected Deans on the basis of a new paradigm. Previously, a Dean was elected by the academy staff in the faculty, but now it is regulated by the MWA, and an election system assesses the competency of the candidates.⁴¹ At this time, there have been some changes to the Dean appointment process. Firstly, the term "selection" is used in preference to the term "election", as previously used, and also the term "assessment" is used.⁴² Secondly, a Committee of Candidate Dean Selection/Panitia Seleksi Calon Dekan (PSCD) is formed, which implements the duties detailed in the Rector Decision Letter and is a university committee that is responsible to the Rector. All of the committee's activities are paid for out of the budget of the university. In the selection process, based on the government regulation, the university has decided to empower the Senate both in the university (Academic Senate of the University/ ASU) and in the faculty (Academic Senate of the Faculty/ ASF). The ASF is authorized to determine almost all PSCD members, with only one of its members appointed by the Rector and one person from outside of the university. Flexibility is also given to deciding the number of committee members, from six to twelve persons, in accordance with faculty considerations. Subsequently, the

⁴⁰ To manage the mechanism of Dean appointment, the MWA in Didik University has issued an organisation rule and decree on the Procedure of Candidate Dean Selection in the university environment. The decree contains five chapters and seven articles, governing various things related to candidate Dean selection, such as the requirements, the committee, and the selection process.

⁴¹ However, the university is still bound by the government provision stipulating that the term of office for Dean and Assistant Dean is four years, and that the Dean and Assistant Dean may be re-appointed under the condition that the term of office occurs no more than twice consecutively.

⁴² From the university document and interviews, this study concludes that "Election" is based more on the individual popularity of the candidate Dean. On the other hand, "selection" means that assessment of the candidate is demanded. The term "assessment" is preferred to "review" on account of "assessment" being more extensive than a simple "review". "Assessment" implies an investigation of documents, personal history, etc., and also leads to a complex and comprehensive review.

PSCD must recruit three persons as candidate Deans, either from within or from outside of the university, who meet the administrative requirements⁴³ and ⁴⁴ to advance in the selection process. Candidate Deans from outside of the university are attracted through placing an advertisement in a national newspaper, on television, or in any other media. When selecting the Dean, the PSCD makes an “assessment” of the candidates based on the required criteria⁴⁵. After a score is given, it proposes three of the best candidate Deans to the Rector. In the final step, the Rector invites each candidate to give an explanation of their vision, mission, and work programme if they are selected. Next, the Rector assesses the candidates and decides, in a prerogative manner, the selected Dean from the three candidates that the PSCD proposed.

The interviews and the examination of university documents lead to the conclusion that the alteration is based on the logic that, as a unit that is under the Rector administratively, then the Faculty Dean, who is the executive head at faculty level, is selected by and responsible to the Rector. The new paradigm is expected to enable Didik University to become a real university, not simply multiple faculties, as it has previously seemed. To summarise the explanation above, Figure 10.4 below describes the selection process discussed in this sub-section.

⁴³ Administrative requirements for candidate Dean are: statement of willingness to be nominated; Curriculum Vitae; copy of doctoral certificate or accreditation as legitimate doctorate from the related university; paper which describes the candidate's motivation to be a Dean, as well as their perspective about the vision, mission, and the work programme if they get selected; statement of willingness to work as a full time Dean.

⁴⁴ General requirements for candidate Dean: Indonesian Citizenship and never lost Indonesian Citizenship; sound of body and mind; hold doctoral degree or accredited specialist as Doctor within the related science; integrity and a strong commitment to Ajar University and the prospective faculty; credible in management, high leadership qualities, spirit of entrepreneurship; broad knowledge of higher education.

⁴⁵ Criteria and weightings for candidate Dean assessment by PSCD are: academic performance that matches the faculty science (10%); leadership (10%); entrepreneurship (10%); commitment to faculty and Ajar University (10%); understanding of strategic issues in faculty (10%); acceptability in faculty area (10%).

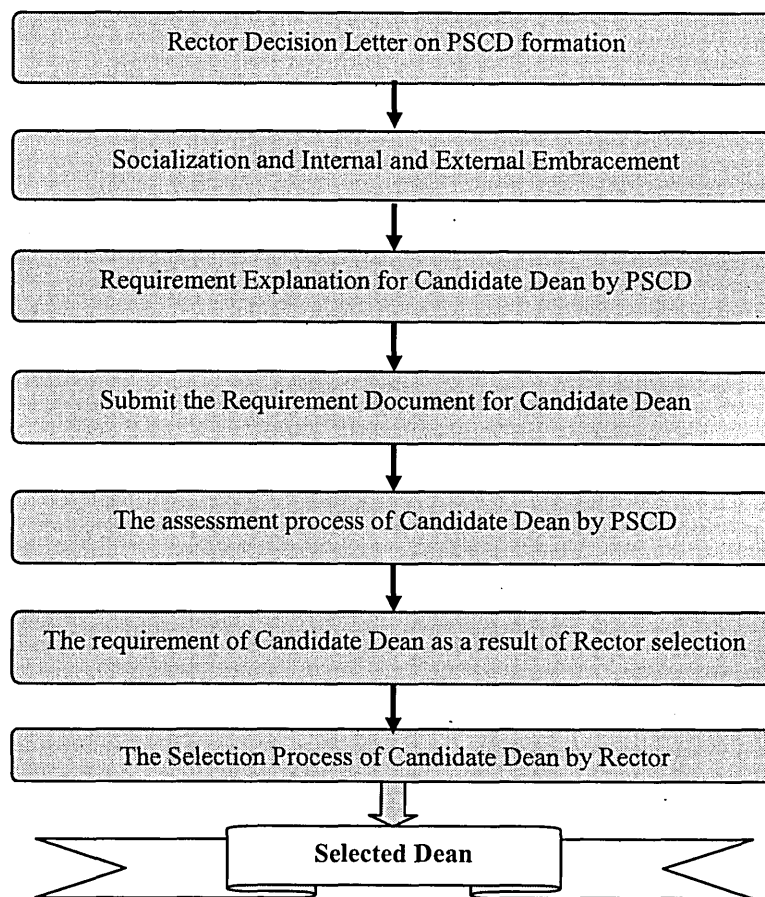


Figure 10.4: Steps in the Dean Selection Process in Didik University

Meanwhile, a few significant changes have also occurred in the appointment of the administrative managers in Didik University since autonomy. Meanwhile, this study did not find many changes to the mechanism for the appointment of administrative managers in Ajar University since the university hasn't have an Organisation Rule as a legal basis to adopt a new appointment approach.

At this time, Didik University has issued a policy that a vacancy at directorship level (middle management) must be filled by teaching staff that hold at least master degree or a professional from outside of the university, with a view to improving the quality of the relevant directorate. The appointment is no longer based on either a seniority policy or the working period and the persons' ages, which were the policies that the government had established, but on the quality of their knowledge and their expertise. In a

democratic manner, no matter who the lecturer is, even if they are still junior, the most important factor is that they have an excellent quality of knowledge, so the individual ought to be the foremost consideration.

Moreover, another change is that advertising media are now used to attract candidates from inside and outside of the university. Now, there is a new procedure that must be followed when selecting an officer for a certain position: the candidate officers who meet the qualifications set by the university have to present their vision, mission, work plan and management system for the institution in front of the evaluator team, which is formed by the Rector and which consists of university elements.

An example of these changes is the appointment of a Director of Human Resources in Didik University, who is a professional, non-civil servant who has many years of experience in managing Human Resource problems in many national companies. This is in line with his story, as follows:

"I am a professional who has worked in various big national companies and not a civil servant. This is the first time that I will have worked in a government institution. The Rector of the university himself asked me in person to take the position as Director of Human Resources. My duty is to handle any problems around here since the change in status. He appointed me both for my competency and my experience in this field."

However, the appointment of an official who is not a civil servant at the university will meet with an obstacle. On this issue, a director put it as follows:

"Unlike a civil servant, I do not have a civil servant number, so I cannot correspond with the government. Because of this, my letters must be signed by my subordinate."

10.3. Mission, Vision and Organisational Strategy

As has been discussed in a previous chapter, before the granting of autonomy, the universities did not have their own strategic plans. The change of university status to a State-Owned Legal Board (BHMN) has obliged the universities to develop strategic plans for the next five years.⁴⁶ The compilation of the strategic plan is also the result of Law No.20/2003 that requires the universities to produce an activity-based budget.

Moreover, the strategic plan, as one of the requirements when compiling an activity-based budget, has become an indicator of every single objective. Hence, after the granting of autonomy, the universities are required to produce a vision and mission statement since these are the first steps in the strategic planning process (see McLemore, 1997). Interviews revealed that because of the benefits of this system, senior managers from both universities supported the use of strategic plans to improve their ability to compete in the new market environment.

The two universities designed their first mission statements in the year 2000 based on Presidential Instruction No.7/1999, which requires that all government units, including the universities, produce a vision and mission statement in accordance with each of their major duties, as well as to report on the achievement of their visions and missions. Since then, the universities have been given the freedom to decide their mission, vision, and goal with the approval of the Board of Trustees (MWA). In 2002, the Ministry of National Education, through DIKTI, forced the universities to produce mission statements by requiring all units in the universities to submit their mission statements in

⁴⁶ Government Regulation of the Republic of Indonesia No.61/1999 on the decision for according public universities BHMN status states that the university is responsible for developing a strategic plan, as stated in Article 17, *"A Strategic Plan is a strategy that is selected to accomplish the objectives, as well as a five-year programme to execute the strategy."*

order to receive funding from the government. Figure 10.5 below presents the new organisational visions, missions, and goals of Ajar University and Didik University.

<p><u>Vision and Missions of Ajar University</u></p> <p>Vision To become a reputable international research university that is oriented to the interests of the state</p> <p>Missions</p> <ol style="list-style-type: none"> 1. To organize high-quality research and services to the community. 2. To uncover and develop the treasure of national culture in a sustainable way. 3. To develop and boost responsible university organizations. 4. To provide services, facilities and infrastructure on campus in line with advances in technology. 5. To develop a network at the regional, national and international level. 6. To provide graduate and postgraduate education of an international standard. <p><u>Vision, Missions and Goals of Didik University</u></p> <p>Vision To become an autonomous, modern research university, and to gain an internationally-reputable academic standard.</p> <p>Missions</p> <ol style="list-style-type: none"> 1. To be the front-line institution in the development of science, technology, and art (centre of excellence). 2. To produce highly-qualified graduates, who are able to compete in the global market and meet its demands. 3. To support development of Indonesian morality through the creation of inventions in the field of science, technology, and art for the benefit of the advancement of Indonesia. 4. To participate in the advancement of world civilisation by producing graduates having global insight, tolerance, a sense of love for peace and high academic achievement. <p>Goal To preserve the university's reputation as the best university in Indonesia by producing qualified graduates, who are able to compete in the global market and meet its demands, and by producing qualified, international-standard researchers as well as producing research and design products that can support the competitive power of the nation.</p>
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Table 10.5 : The universities' visions, missions and goals
Source: From the documents of Ajar and Didik University

As a result of this requirement for strategic plans, visions and mission statements, during the Rector selection process, the candidate Rectors are obliged to deliver their vision and mission and also their strategic plans for the future of the universities.⁴⁷ After being elected as Rector, the vision and mission so presented is then reformulated by the universities' senior management. The organisational mission and vision that are

⁴⁷ A more in-depth explanation of the Rector selection process has been given in a previous section.

produced are then translated into a strategy. After that, the vision and mission statement and the strategic plan are submitted to the MWA, as the highest body in the universities, to be approved. The members of the university are obliged to carry out the vision, mission and strategic plan that have been approved by MWA. Next, the vision, mission and strategic plan of the universities would be interpreted into the faculties and lower level units, which would then prepare their own plans.

However, as was described in Chapter Nine, relations exist between managers in the universities only in the hierarchy but do not extend to the daily activities of the management. Hence, this study found that the departments in the universities prepare and run their own policies and there is no synergy between them in order to prepare the universities' strategic plans. The role of the universities, as the central administration, is only to undertake the required administration before sending the strategic plan to the MWA to be approved.

10.4. Budgeting

At the moment, autonomy cannot yet be given fully to the two studied universities, especially in financial matters.⁴⁸ As a consequence, the universities now have two systems for financial budgeting. The first system is used for the budget from the government (routine and development budget) and uses the system that the government applies. The second system is used for the budget received from private sources (such as tuition fees), for which the budgeting system used is a government-regulated system.

⁴⁸ Further explanations of the reasons for this can be found in the Discussion chapter (Chapter Eleven).

10.4.1. Budget from Government⁴⁹

There have not been many changes to the application of budget systems to manage funds from the government since the government still uses the very old Law on Finance of 1925 (Indische Comptabiliteit Wet/ICW), a legal product dating from Dutch colonial rule, to manage government funds.⁵⁰ Like other public universities in Indonesia, the role of the universities and faculties in the preparation or implementation of the budget that originates from the government is still only to act as the proposal provider and to implement administrative tasks, whereas the decision is in the hands of the government.⁵¹ Moreover, as fund provider, the government has a duty to look for the funds for such expenditures. An officer of finance commented as follows on the authority of Didik University to determine the budget allocation from the government:

"In the university, we don't have any authority to increase or to reduce a budget allocation from the government. We merely carry out an administrative job when using the budget as well as reporting it to the government."

10.4.2. Budget from Private Sources

After autonomy, the routine and development budgets from the government are still awarded but with funds from private sources, such as from the students as well as income from co-operating with other institutions, added to the budget. Now, according to Government Regulation No.61/1999 on reforms in Public Universities, the universities themselves have the authority to find income from private sources without being bound by government rules. The universities no longer have to surrender their income to the government; they are simply obliged to present a report to the Department of National Education and the Department of Finance.

⁴⁹ An in-depth explanation of this issue can be obtained from the previous chapter (Chapter Nine).

⁵⁰ Indische Comptabiliteit Wet, a 1925 law enacted by the Dutch Government when Indonesia was its colony.

⁵¹ The expenditures in the university that originate from this routine budget are more related to the teaching and learning activities as organized by the university. One of these routine expenditures is for the salary of university employees having the status of civil servants.

At this time, according to Law No.61/1999 and Law No.20/2003, the universities are required to produce a strategic plan and an annual budget work plan (Rencana Kerja Anggaran Tahunan/RKAT). Hence, coordination in the universities is now based on the strategic plan and the RKAT. As regulated by law, the strategic plan in the universities is composed by the leaders of the university after receiving input from the ASU and is proposed to the MWA to be discussed and authorised.⁵²

The strategic plan and RKAT, once it is approved and authorised by the MWA, becomes the guidelines for the universities to manage their funds. A Deputy Rector in Ajar University explained the importance of the work plan and annual budget:

"The Work Plan and the Annual Budget that the MWA have approved would provide guidance for Ajar University to manage its funds. To cover the required amount of funds for the budget, the university would use two basic principles, namely to maximize the income from tuition fee (SPP) and to minimize the burden on poor students."

As also explained by a Deputy Rector:

"In my opinion, the autonomy system in the sector of finance is expected to stipulate management methods that more specifically conform to the local conditions in order to reach good quality. Management is more efficient and effective. Due to its financial autonomy, the university prepares programmes and activities, and then they prepare the financial aspects. So the university has the right to adapt its priorities and financial procedures to conform to the planned programme. Thus, autonomy is part of the management system to reach good quality."

The Law of the Republic of Indonesia No.17/2003, which was approved by the representative house, on state finance, brings a wind of change to budget management in the universities as well as in other public universities and all existing government institutions in Indonesia. Therefore, the studied universities have also changed budget allocation from a line item-based budget that is based on the previous year's budget to

⁵² The Law details the process of drawing up the plan in the following statement:

"A Strategic Plan is compiled by the Leader after he/she gets input from the Academic University Senate and it is proposed to the MWA to be discussed and approved."

an activity-based budget. A respondent in Didik University gave other reasons for why the university budget should be changed:

"Today, the principle of democracy (a state free from corruption, collusion, and nepotism) is in great public demand. A budget should be in accordance with this demand. Moreover, the last budget pattern was no longer appropriate. Therefore, that basic budget must be changed and referred to the desired performance."

Commenting on the use of an activity-based budget, a Deputy Rector in Ajar University supported the use of activity-based budgeting and explained:

"Sure, there is an advantage in the allocation of an activity-based budget. People find it difficult to evaluate the allocation of a line item-based budget because it's related to materials like buying markers, paper, and so on. The result is not clear. If the allocation uses an activity-based budget, we can see the result. Let's take education activity as an example. Ajar University has released a lot of funds. We ask, what about the result? Has the GPA increased? Does the waiting list for students to get jobs become shorter? So, the relationship between the money we spent and the output quality can easily be seen."

Input is obtained from all working units concerning the budget plan for the funds obtained from SPP. The faculties receive a report from the financial unit on the amount of income resulting from SPP. The mechanism of income and expenditure in the universities is through a one-way policy under the control of the financial unit: income from SPP is collected by the unit. The faculty then delivers the income received from tuition fees (SPP) and the required budget plan to the budget centre. A few per cent of the income from private sources (such as tuition fees) that each faculty gains must be given to the university to be used for the routine budget for every unit in the university.⁵³ Every faculty is given the freedom to determine for themselves the usage

⁵³ Faculties in Didik University must give 10% of their income, while faculties in Ajar University must give 20% of their income

of the remaining income.⁵⁴ A manager in Didik University elucidated the budget-making mechanism in detail as follows:

“In disbursing funds to finance university activities, the mechanism works as follows: after a 10% deduction is made by the university administration centre and another 10% by the relevant faculty, the rest is given directly to the department which represents the executive unit – a department which will allocate the funds based on their requirements. They prepare the budget themselves and we, as faculty management, do not interfere at all. It’s up to them what they do with the money.”

Interviews in Ajar University found similar answers except that the university, as the administration centre, deducts 30% of the budget amount received from the government.

When issuing a budget, the budget plan, agreed amongst the interested parties within the university, is brought before the MWA to be approved. The MWA discusses it with the Rector and corrects it, then approves and executes it. As a manager revealed:

“The MWA is the highest institution in the university. Before carrying out the programme, the Rector must first propose it to the MWA.”

10.4.3. The Control of Budget Implementation

Since the award of autonomy, there are differences in perspective on the control of activities in each of the units of the universities. As a respondent in one university said:

“By autonomy we assumed that we should think of the university as similar to a company. A company ought to find or spend money both as effectively and as efficiently as it can and in a controlled manner. Leakages of funds occurred before autonomy, but now we must be able to control them and to figure out where the leak is.”

The internal auditor has a duty to audit regularly all work units in the universities’ environment, which covers education and studentship, finance, and manpower. The

⁵⁴ They should, however, follow the work plan. In Ajar University, they have eight items, namely: (1) Institution Programme, (2) Education Programme, (3) Research Programme, (4) Public Service Programme, (5) Human Resources Programme, (6) Studentship Programme, (7) Information Systems Development Programme, (8) Assets and Infrastructure Programme in the campus area.

internal auditor reports on the implementation of duties to the top officers. The external auditor is the Financial And Development Supervisory Board (BPKP/Badan Pemeriksa Keuangan Pemerintah) or the Inspectorate General of the Department of National Education (IrJen Depdiknas), which is part of the government. The BPKP carries out the inspection of financial performance by inspecting all expenses. One of the Deputy Rectors in Didik University commented on the control of budget operation as follows:

“The MWA asks the head of the university to report the budget realization once every three months by reporting how the budget is spent.”

After autonomy, government regulations stated that the universities must have an institution called an Audit Board. The Board is formed by the MWA, and the Audit Board of the universities is therefore responsible to the MWA. The board itself has the duty only to evaluate the results of the internal and BPKP audit reports and to present their conclusions and proposed suggestions to the MWA. The Audit Board has recently arranged good university governance, an audit charter, and performance indicators of audits of finance, organization, education, and management. The Audit Board subsequently reviewed the effectiveness of the internal audit team. Therefore, through the formation of the board, it was expected that financial management in the universities would become more accountable as well as transparent and secure.

After autonomy, the universities changed the composition of the internal audit staff in order to be more efficient and to control the management of the implementation of financial activities. A respondent explained that:

“A long time ago, before autonomy, most internal audit staff were part-time lecturers. Today, the staff to whom the Rector appointed control of university activities are from outside of the university. They are then able to concentrate on the job.”

Another respondent added:

"We should consider time correctly here. As lecturers, they take on great responsibilities, such as teaching and so on, which takes their time. They must also then control internal matters, which also require much time. Do they have sufficient time to do all these things? Besides, if the internal auditors were economic lecturers then they would not understand the terms in technology."

Government Regulation No. 153/2000 intended that the university should realize accountability and transparency in the management of finance. Therefore, to realise this goal, the university introduced the system of double-entry accountancy in compiling financial reports to replace the system of single-entry accountancy, which functioned before the bestowal of autonomy.

The decision to use the double-entry system is in accordance with a decision taken at a routine meeting that was attended by the leaders of the universities with BHMN status as one of respondents said:

"For the system of accountancy of PT BHMN, we agreed to use double entry, which refers to PSAK (Pernyataan Standar Akuntansi Keuangan / Statement of Finance Accountancy Standard), which is used for non-profit institutions' financial reporting."

Today, the pattern of management liability is no longer only directed towards the government, but also to other stakeholders, including society/members of the public. This is reflected in Article 15 paragraph 1 of Government Regulation No.61/1999, which requires the autonomous universities' heads to report to the MWA periodically (the members are representatives from the government, society, and the university) about the progress of the university. Besides the government, the management is also responsible to society and the students, since the funds to provide the services are

received from society either directly (through tuition fund collection) or indirectly (through the State Budget from the government).

In the sector of finance, there have been changes in the financial reporting system. Before autonomy, at the end of the fiscal year, the remaining cash had to be deposited in the state's account. Now, only a report is submitted to the government. The financial statements that have been audited by BPKP are reported to the government via the Minister of Education and the Minister of Finance and are then reported to the public.

The financial reporting system in the universities changed from output-finance report-based to an obligation to produce a Performance accountability Reports for government units (LAKIP). The same phenomenon also happened in other government institutions. The democratic era, as has occurred since the downfall of Soeharto from his reign of power, has brought a new spirit to the process of managing institutions in Indonesia. The demands to promote the principles of open and sound management are emerging from various circles. So as to respond to the demands of the community, the government has issued Presidential Instruction No.7/1999 as a legal means that regulates the Performance accountability Reports for government units (LAKIP). Based on Presidential Instruction No.7/1999, the management of any government agency is compelled to prepare a strategic plan and a LAKIP report for the agency under its control. Due to the presence of such a Presidential Instruction, the two studied universities, as part of the government, must change the control of their activities and their financial reporting, which is based on performance. Concerning the background of the issuing of the Presidential Instruction that manages LAKIP implementation, a participant stated:

"This use of LAKIP is the government's effort to create a clean government that is transparent, able to attract public participation, and is

publicly accountable. The background to its usage is as the result of corruption, collusion, and nepotism (KKN) in Indonesia. Practitioners and academicians believe that the use of LAKIP in an appropriate manner is one of the methods needed to eliminate KKN, which has occurred frequently in Government Institutions."

A Deputy Dean shared his thoughts on the implementation of financial control in his university:

"The government audit team that usually inspects us is the Financial And Development Supervisory Board (BPKP). They usually examine the university and take only some faculties as samples, mainly the large faculties such as the Faculties of Engineering, Medicine and Economics. However, according to government regulations, in 2005 the government audit board will not be involved in the control of university finances. At that time, the audit will be conducted by our internal auditor, and the other auditor will be from the Public Accountant's Office (KAP). This KAP will be appointed by the Audit Council. We also undertake our own audit performed by some lecturers in the faculty who are professional accountants. Thus, before being audited, we have been audited by our internal auditors."

Regarding the role of Supervision and Internal Control (Supervisi Pengawasan Internal/SPI) in university control, he said:

"The SPI team has never checked us. The new scope of the SPI is only applied at the university level. Probably this is due to the lack of skilful staff at the university. In order to anticipate the situation, we use our internal audit system with the assistance of our local accountant."

The change was explained by a participant:

"One thing that has changed includes the form of accountability, which nowadays is more specific. Everything is transparent, like expenditure, jobs, who the implementer units are, and what the outputs are."

In the case of Didik University, according to the Articles of Association and Rules of Association of the University:

"University management shall be responsible to MWA by submitting the annual report to MWA once a year, at least three months after the expiry of the University Fiscal Year. The annual report shall comprise: (a) financial statement that comprises budget, cash current report, and net receivable account change report; (b) academy report, research, community service that comprises situation, performance, and results

achieved by the university; and (c) university employment report that comprises situation, performance, and the achieved progress.”

10.5. Setting the Tuition Fees

The two studied universities have several types of income from students, namely tuition fees from regular and non-regular Undergraduate programmes (S1), the three-year diploma programme, the master’s programme (S2), and the doctorate programme (S3). After autonomy, the government still determines tuition fees for the regular S1 programme nationally, meaning that the universities still have no authority at all to replace the tuition fees. For S1 Regular students, which are the majority of the students in the universities, even the government-applied tuition fees for the students are below the required level for the Indonesian state university to develop the student. A manager in Ajar University gives an example of this:

“The amount of money from the government to develop the student is very small. A few days ago, I, together with the faculty and departments was asked to calculate the Unit Cost of Higher Education. We calculated that we need at least Rp 18 million per student per year, while the government has determined that we only need around Rp 4 million subsidy per student per year, which is not even 1/4 of it. The government also decided that a student only has to pay Rp 2 million or 1/9 of the total required.”

A Deputy Rector added this:

“Such great funds (Rp 18 million per student per year) would enable us to compete with other universities at the regional level. The problem is that it is not possible for the government fully to bear the cost. Moreover, the meagre budget is also distributed to the other 62 public universities (PTN). In fact, the development of Ajar University as a research university does not merely demand excellent students but also requires qualified human resources. A qualified education also needs the research infrastructure including laboratories, a library, a centre of information technology, as well as highly qualified academicians.”⁵⁵

Before autonomy, the universities had no power to raise any costs, as a manager explained by stating:

⁵⁵ Exchange Rate: 1 GBP (£) = 15,000 IDR (Rp)

"Before now, as a non-profit governmental institution, we were prohibited from finding our own funds outside of the government's control. At that time, to overcome this, illegal and unrecorded proceeds were obtained from the students. Today, through MWA approval, the university has the authority to gain legal proceeds from the students as long as the objective is to improve study-learning quality and the lecturers' standard of living."

To overcome this matter, after autonomy the two studied universities determined various added costs for the students. Article 24 of Law No.20/2003 on the national education system allows the universities to collect public funds and manage themselves. At Ajar University, they introduced new ways to increase their funds, such as the entrance fee that is called as Donation to Academic Quality Improvement (Sumbangan Peningkatan Mutu Akademik/SPMA), and the Educational Operating Fee (Biaya Operasional Pendidikan/BOP). A respondent explained the reason for this as follows:

"Raising the tuition fees is very bureaucratic and such a long process. Hence, a reasonable way out is a policy to collect BOP from every student."

The Educational Operating Fee (BOP) is used for particular needs, including the funding of matters related to education, such as honoraria for educational purposes, but these must not be more than 20%. Concerning the mechanism of raising the Donation to Academic Quality Improvement (SPMA) and the Educational Operating Fee (BOP), a Deputy Dean said as follows:

"At that time, the Rector asked us to calculate the cost that a faculty incurred through everyday study and learning. I, as the 2nd Deputy Dean, did not get directly involved in the calculation; I just called for the heads of department and the heads of labs to send me details about the costs. The cost is variable. Indeed, there were one or two departments or labs that were reluctant to provide the information. Therefore we estimated their needs, which was better than nothing. We then sent it to the university."

The biggest influences in determining the fees (BOP), as well as SPMA, are from the Rector and the MWA. The university has to ask for MWA approval first, before they can decide on the BOP and SPMA amounts. Therefore, although it seems contradictory,

the university continues to carry out the policy since the MWA, as the highest body in the university, ratifies it. Related to this matter, a respondent said as follows:

“There was no meeting between faculty parties and the university to determine the fees (BOP). The university asked for MWA consideration as well as approval as the highest body right here. Both the Rector and the MWA had their own thoughts. As a result, the fees (BOP) are much higher than we had calculated. We, from the faculty parties, have no idea at all about the criteria that were used to calculate the released number.”

The amount of BOP itself is different in science and non-science faculties. In science faculties, a student is obliged to pay a higher BOP than in the non-science faculties. All of the BOP funds obtained from the students are handed over to the faculty without any deduction being made by the university. As also happened in Didik University, Ajar University introduced a new policy by applying an "entrance fee" to new students.

10.6. Chapter Summary

The discussion above concludes that after deregulation, the role of central government bureaucracy in the two universities was weaker than before autonomy was granted. This chapter found that there are some areas in management control practices that have been changed in the universities after the granting of autonomy by the government, such as: industrial relations, strategic planning, budgeting, and financial reporting. In terms of industrial relations, the universities experienced some changes in employment status, organisational structure, and the appointment of managers in the universities or faculties.

In summary, deregulation gave the two studied universities the power to make decisions and manage their own governance. Table 10.6 and 10.7 summarise the activities in management control systems in the two studied universities before and after deregulation that have been detailed in Chapters Nine and Ten.

Table 10.6:
The Differences of Management Activity Before and After Higher Education Reforms in Ajar University

No	Items	Before Autonomy	After Autonomy
1.	Rector Selection	<ol style="list-style-type: none"> 1. Rector of university appointed and discharged by President after get consideration from the Minister (education), other ministers or the Government institutions after get consideration from Senate of University. Appointment of Rector is a prerogative right of government. 2. Rector selection is held as closed selection and only the authorities acknowledged it. 3. Candidate rectors are the insiders. 	<ol style="list-style-type: none"> 1. Rector appointed and discharged by MWA. The elements of MWA are: (a) minister; (b) senate of academic; (c) society; (d) employee; (e) student; and (f) rector. The Government owned as 35 percents of the legal vote and the rest, 65, divided evenly for every other single member. 2. "Fit and Proper Test" to select rector. The selection is executed in an open meeting of MWA that chaired by the head of MWA. The candidate rector who get the most voting would be appointed as rector through MWA decree. 3. The candidate rector are both from insider or outsider.
2.	Employment Status	<ol style="list-style-type: none"> 1. The vacancy filling by the government is not always get announced through mass media. Usually, they picked up from their own employee who familiar with the people. 2. Majority of university's employees are civil servants 	<ol style="list-style-type: none"> 1. Employment by contract. The contract will be renewed every year. 2. Recruitment more open for outsiders 3. University reduces the civil servants. University now has three kinds of employee: civil servants, university employees, and casual employees
3.	Appointment of Administrative managers	<ol style="list-style-type: none"> 1. Managers have been appointed according to seniority, the working period, and the person ages that has been regulated by government. Candidates were only from inside university. The appointment was not according to the candidates' skills. 	<ol style="list-style-type: none"> 1. The appointment is based on the quality of candidates' knowledge and expertise. Used advertising media to attract candidates from inside and outside university. The requirement should be a master degree to become the middle managers.
4.	Finance	<ol style="list-style-type: none"> 1. A very long bureaucracy. Such as, all of university income have to be handed into state cash first, then sent back to university to be used. Unfortunately, not all of the income received back. It depends on the Government policy. 2. To use a single-entry system to make a bookkeeping. 3. The university was prohibited to find funds outside the government's control 	<ol style="list-style-type: none"> 1. University don't have to submit their income into state cash. They allowed to report the income, only. 2. To use double entry system to make a bookkeeping 3. The university is legally to find more fund outside the government's as long as has been approved by the Council (MWA)

Table 10.6: The Differences of Management Activity Before and After Higher Education Reforms in Ajar University

5. Budgeting	<ol style="list-style-type: none"> 1. A government right to distribute the funds 2. All national universities have to conform to the general account budget, which follows standardized criteria, so it is very hard to meet the diversified special needs of each national university 3. The national universities have to follow very tight regulations of the budgeting and has little flexibility in implementing the budget. These tight regulations and inflexibility cause inefficiency. 	<ol style="list-style-type: none"> 1. the university has two budgeting systems which are budget from government (routine and development budget) and from private source (such as tuition fees) 2. Government only has a right to distribute the funds come from the government. University will distribute all the funds from the tuition fees or other business.
6. The Employment's Status	<ol style="list-style-type: none"> 1. Most employee in the university are Civil Servant (PNS). 2. The Government played the most part to manage the university employee. 3. University often hired S1 lecturer who lack of competency to teach S1 students. 	<ol style="list-style-type: none"> 1. The amount of Civil Servant (PNS) in the university about to get minimized gradually. Then, at last, just left employee to whom university appointed. Civil servants can stay on as civil servants as long as they wish or resign and be recruited into the new system as university contracted employees. 2. Faculties allowed to seek for employee that they required. 3. University no longer to employ S1 lecturer. They have to be Master or Doctor. For those who are still S1, recommended to take a chance for a Master with scholarship. If they not desired, they about to be moved to teach diploma.
7. Strategic Planning	<ol style="list-style-type: none"> 1. The determination of the vision, missions and goals of the university were inseparable from government intervention. All state universities had similar vision and mission that have been provided by the government and have not been re-model since 1989. 	<ol style="list-style-type: none"> 1. Law No.20 year 2003 and Presidential Instruction No.7 year 1999 requires the university to produce its own vision, mission, goals and strategic plan for 5 years. The plan need approval from the Council (MWA).
8. Organisational Structure	<ol style="list-style-type: none"> 1. Government is the highest Institution and has a right to decide every regulation for the university. 2. All state universities have same organisation structure that have been decided by the government 	<ol style="list-style-type: none"> 1. The Council (MWA) which consist of stakeholders is the highest institution. 2. The university has been allowed to make their own organisation structure. The structure regulated by Organisation Rules that need to be approved by the Council (MWA)

Table 10.7:
The Differences of Management Activity Before and After Higher Education Reforms in Didik University

No	Items	Before Autonomy	After Autonomy
1.	Rector Selection	<ol style="list-style-type: none"> 1. Authoritative. The Government in this case Minister of National Education has a prerogative right to select who's the one to lead the university although the option against with other stakeholders desire. 	<ol style="list-style-type: none"> 1. More democratic. All stakeholder get involved with Rector's appointment. 2. Open. All candidate rectors have to deliver their work plan in front of the public. 3. More open for outsiders
2.	Dean Selection	<ol style="list-style-type: none"> 1. A dean is selected by Senate of Faculty through voting. 2. The one who allowed to run for office is lecturers from the faculty itself. 	<ol style="list-style-type: none"> 1. A dean is selected by rector through a selection process. 2. The selection is also opened for candidates outside the university
3.	Appointment of Administrative managers	<ol style="list-style-type: none"> 1. As a part of government institutions, the university has to obey government regulation to appoint a manager, such as: seniority policy (e.g. rank and ages) and working period. 	<ol style="list-style-type: none"> 1. As also happened in another university, the university has more freedom to appoint the managers.
4.	Employment Status	<ol style="list-style-type: none"> 1. The employment status in university consist of Civil Servant as the majority 2. Employees of the university has been recruited by the government. 3. It was a close recruitment and could open a possibility of Corruption, Collusion, and Nepotism. 	<ol style="list-style-type: none"> 1. University not allowed to accept any Civil Servants (PNS). Next, an employee who accepted in university categorized as a university employee. 2. To whom any university employee whose status as Civil Servant give an option whether they prefer to be Civil Servant for good or a university employee. 3. The University use an open recruitment system to get a new employee for example by using any various media to get hired in it.
5.	Employee Salary	<ol style="list-style-type: none"> 1. Since most of the employee in the university is Civil Servant, the salary managed by the Government Regulation. The University has no authority to change their salary. 	<ol style="list-style-type: none"> 1. Salary for Civil Servant managed by the Government. Both salary and pension right are imposed over the State Budget, unless before they retired they decided to be the university employee. It resulted difficulties for university to apply salary system based-performance. 2. For a brand new employee of the University, the salary managed by the university Regulation referred to the Minimum Regional Wages (UMR) from the Government.

Table 10.7: The Differences of Management Activity Before and After Higher Education Reforms in Didik University

6. Finance	<ol style="list-style-type: none"> 1. Use a single-entry system to make a bookkeeping. 2. Send the financial report to government 3. Remaining cash has to be sent back to the government. 	<ol style="list-style-type: none"> 1. To use double entry system to make a bookkeeping 2. Send the financial report to the stakeholders (e.g. government, society, students) 3. The university may keep the remaining cash.
7. Budgeting	<ol style="list-style-type: none"> 1. Distributed by government. 2. The budgeting system in the university professed a traditional budget system focus on simplicity. The succeed analyzed from the university capability to spend or absorb the budget in accordance with the budget that government decided. 3. Not spending fund has to be sent back to government 	<ol style="list-style-type: none"> 1. Similar with Ajar university, Didik University has two kind of budgeting, which are from government and private sources. 2. The government still distribute the fund come from them but university can distribute the fund they get from its business. 3. The budgeting system in the university is activity based budget. The budget usage encouraged the university to focus on outcome.
8. Organization Structure	<ol style="list-style-type: none"> 1. The Government is the highest institutions that has right to manage the university including finance, academic, and employee appointment or top officer appointment of the university. 2. Accountable to Government only. 	<ol style="list-style-type: none"> 1. The increasing of new elements then it'll be like the Council of Representative Mandate (MWA), the Auditory Board, and the Council of Professor 2. Organizationally, The Council of Representative Mandate (MWA) is such the highest body of the autonomy university. Therefore, MWA is the representative of the Government and society in which consists of Minister of national Education, Senate of Academic, public and Rector. Then by such structure, there'll be no more command path from the Government c/q Directorate General of Higher Education institution to university. 3. Accountable to all stakeholders (MWA).
9. Strategic Planning	<ol style="list-style-type: none"> 1. There was only vision, mission, plans and goals from the government for all the National Universities. 	<ol style="list-style-type: none"> 1. Today, based on Presidential Instruction No.7 Year 1999, any institutions obliged to produce their own vision and mission. 2. University also has to produce a strategic plan for university.
10. Setting tuition Fees	<ol style="list-style-type: none"> 1. The university has no authority at all to decide the tuition fees 	<ol style="list-style-type: none"> 1. The university has an authority to set the tuition fees for all programs except the regular S1 programs . 2. For the regular S1 programs, the university raise fund from the students through Donation to Academic Quality Improvement and the Educational Operating fee

The discussion in this chapter found that the selection of university Rectors is becoming more democratic as they are appointed by the stakeholders. In addition, the other managers in the universities are appointed according to their skills and also through selection process. Concerning budgeting practices, after deregulation, the universities have two kinds of budget, which are budgets that come from private sources and from the government. The universities have been allowed to manage the income they earn from private sources while the government still manages the budget that they provide. The budget control has become stricter than before. In addition, the government has also given more autonomy for the universities to develop their own missions, visions, goals, and organisational strategy in order to improve the quality of the universities. Finally, after the granting of autonomy, the universities have the independence to set the tuition fees for the students according to the needs of the universities.

After discussing the management control systems in the two studied universities before and after deregulation, this thesis is continued in the next chapter with an analysis of the factors that influence the changes to the MCS in the universities.

CHAPTER ELEVEN

ANALYSIS AND DISCUSSION

11.1. Introduction

As presented in Chapter Three, the study uses the new institutional sociological (NIS) framework to explain why and how management control systems have changed in the organisations studied. The study also supplements the analysis of institutional forces with relations of intra-organisational power and market forces. To understand how and why management control systems change occurs, this chapter examines the process of change as well as the outcome of change. This analysis also describes how new ideas become legitimised within organisations.

There are several external and internal factors that shape the operations of the management control systems. In this chapter, a number of factors that influence the changes in MCS in the two autonomous universities are examined. This chapter examines a number of factors that influence the changes in the two universities studied using institutional isomorphism, and the interplay between institutional, organisational power relations and competitive forces.

This chapter is divided into six sections: the first section provides an introduction and overview of the chapter; the second section provides evidence to suggest that the external environment such as governments, headquarters, legislation, and agreements between countries would influence the operations of Management control systems in an organisation (Coercive isomorphism); the third section provides evidence to suggest that the willingness to maintain institutional stability and legitimacy from other

organisations would bring an organisation to adopt certain management accounting control practices (Normative isomorphism).

The next two sections are provided to address the shortcoming of NIS identified earlier in Chapter Three of this thesis. The fourth section discusses the interplay between institutional forces and organisational power relations in facilitating the changes in management control systems of the universities; while the fifth section provides discussion on the interplay between institutional and market forces in facilitating the management control systems change in the universities. Finally, this chapter is closed with a section that provides the conclusion of the chapter.

11.2. Coercive Isomorphism in Facilitating Changes in the Universities

As a result of fundamental changes in society, politics, and the Indonesian economy, Indonesia's universities today face a broader and more complex set of environments than a few decades ago. These environmental changes are seen as being able to provide bases for management accounting change (Burchell et al., 1980; Broadbent, 1999; and Hopwood, 1999). Coercive force itself can be particularly strong where deviations from institutional norms have legal, moral, or particularly, economic aspects (DiMaggio and Powell, 1983). This section discusses the first type of institutional isomorphism identified in the study - coercive isomorphism - as an influencing factor in facilitating changes in the two universities studied.

11.2.1. Government Agencies, Laws and Regulations

This subsection describes how the government, including government entities, the laws, regulations and political situation, influences the studied organisation to implement new ideas. This study includes an examination of how the universities went beyond the need to satisfy the government as an institutional regulator. This section uses NIS in order to discuss the findings. NIS refers to the exertion of pressures for homogeneity by the state and other powerful actors as coercive isomorphism (see also DiMaggio and Powell, 1983).

External dependencies are very prevalent in the Indonesian state higher education institutions (HEIs). These institutions are often subject to coercive pressures from government entities and regulations. Table 11.1 below summarises some of the reasons why the studied organisations should conform to government entities and regulations. This section will discuss this matter in more detail.

Why the organisations should confirm to government entities and regulations:

- The organisations are part of government units
- Organisation need resources from Gov

Table 11.1. : Pressures from government

In Indonesian higher education system, the government, represented by the Directorate General of Higher Institution (DIKTI), has a critical role to play in providing the regulatory environment and financial incentives. HEIs in Indonesia have become increasingly subject to central control through DIKTI. The Council used its authority to introduce mechanisms of accountability and control over both teaching and research. As the government representative in managing Indonesian higher education, the Council has immense power to steer the system in any direction. The Council retains punitive powers to discipline any institution which attempts to ignore necessary constraints. The government also has the power to punish university employees, whose status is that of civil servant.

Fieldwork in this study revealed that the government policies have led to changes in the activities of the two universities. Semiawan (1999) argues that governmental reforms and increased regulations have forced the practices in Indonesian universities to become dramatically different from what they were, and require organisational adaptation if the essential contribution of the universities to society is to be sustained. Llewellyn and Tappin (2003) provide empirical evidence about the existence of government pressure in public sector organisations. There are some factors that give power to the government in order to influence the organisations in establishing new practices. The power comes from the dependency of the organisations upon government funds and human resources, since public services are short of resources (Llewellyn and Tappin, 2003). This study also observes similar findings of coercive pressure from government entities on the adoption of new practices in the two organisations studied. This finding has been

supported by Hoque and Hopper's (1994) case study which found that many aspects of an organisation's formal structure, policies and control procedures are shaped to accord with the institutionalised rules and expectations demanded by external constituents such as government agencies (see also Meyer and Rowan, 1977; DiMaggio and Powell, 1983). However, the government regulations result in the two studied universities being similar in most day-to-day management activities.

As has been explained in Chapter Two, DiMaggio and Powell (1983); and Dacin et al. (2002) identify the political and regulatory environment as key sources of institutional isomorphism. In the case of the Indonesian higher education sector, table 11.2. below lists the law and regulations that influence the activities in the state universities, including the two studied universities. The table below shows that regulatory elements, especially government policies, contribute to either promoting or inhibiting organisational change. The explanation in this chapter will provide further explanation about this issue.

Regulations and laws that support changes: (a) Law No.20/ 2003 on the System of National Education (b) Government Regulation No.60/1999 on Universities in Indonesia (c) Government Regulation No.61/1999 on reforms in Public Universities (d) Law No.17/2003 on State Finance (e) Presidential Instruction No.7/1999 on the System of Finance Report of the Government Institutions	Regulations and laws as barriers: (a) Article 31 paragraph 1 of the 1945 Constitutions (b) The Law on Finance of 1925 (Indische Comptabiliteit Wet/ICW), a legal product since the Dutch colonial rule (c) Law No.43/1999 on civil servants (d) Government Regulation No.77/1977 on the Regulation of Remuneration for Civil Servants (e) Government Regulation No.32/1979 on dismissal of civil servants
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Table 11.2. : Influence of Government regulations and laws in Indonesia

The cases in this study show that changes in the public sector organisations studied have been coerced by government regulations. Accordingly, the cases in this study support the argument of DiMaggio and Powell (1983); and Dacin et al. (2002) that political and regulatory environment are key sources of institutional isomorphism. These regulations put pressure on the organisations to change their management control systems. Such

pressure occurs because a public university in Indonesia is treated as a government bureaucratic unit and has to comply with the same regulations applicable to all units in the ministry. Indeed, this status does not provide the necessary autonomy for public universities to develop themselves. This is consistent with Collier's (2001) findings that organisations need the support of governmental institutions where their operations are regulated.

Many aspects of an organisation's structure and policies tend to demonstrate conformity with institutionalised rules expressed by external constituents such as society and the government. The universities had to conform to the law and regulations in order for them to gain external legitimacy, especially from the government and public. The changes are as a consequence of: (a) Law No.20/2003 on the System of National Education; (b) Government Regulation No.60/1999 on Universities in Indonesia; (c) Government Regulation No.61/1999 on reforms in Public Universities; (e) Law No.17/2003 on State Finance; and (e) Presidential Instruction No.7/1999 on the System of Finance Report of the Government Institutions.

These regulations were introduced by the Indonesian government in response to pressure from the uncertain economic and political environment of Indonesia, including pressure from foreign donor institutes. As a consequence of the crisis, the Indonesian government found that it had to respond more directly to the advice of the international financial institutions and donors. As identified in Chapter Seven, the introduction of various laws and regulations by the Indonesian government was precipitated by the involvement of the World Bank (WB) and the International Monetary Fund (IMF). The Indonesian government's decision to issue the laws and regulations was to achieve legitimacy from these foreign donor institutions in order to receive funds from them as

part of aid packages. This finding is consistent with the argument of DiMaggio and Powell (1991, p.7) who argue that nations, in an effort to realise joint gains, agree to bind themselves to international regimes that subsequently limit their freedom of action. In Indonesia, the IMF forced the government to reform its public sector institutions including public services so that they would become more efficient, cost effective and free from corruption, collusion and nepotism. Much research (such as Hoque and Hopper, 1994; Uddin and Hopper, 2001; Tsamenyi et al., 2002; Hopper, et al., 2003a) on management accounting also highlights the role of multilateral agencies in many less developed countries that have experienced financial crisis. Multilateral agencies often use their financial position to coerce domestic policy actors to adopt otherwise unacceptable reforms (see Tsamenyi et al., 2002).

11.2.2. Resource from Government, Political Situation and The University's Council

This sub-section discusses the issues of the resources from the government, the political environment and the influence of the University's Council in facilitating changes in the universities. As has been discussed in Chapter Seven of this study, the studied universities, being public universities, receive a large portion of funds from the government. Based on this funding, one could argue that the universities are particularly susceptible to the changes and demands of the government. The senior managers of the universities and of other public services must adopt government policies in order to secure on-going funding from the government. In other words, the reforms in the universities' activities adopted an "outside-in" approach (Ma, 2003). The discussion in the previous chapter revealed that the design of performance indicators in the two organisations was linked to the DIKTI as a government body that manages all higher education institutions in Indonesia. The aid funds from DIKTI provide substantial

assistance in the implementation of activities in the university. A manager in the university commented that:

"The funds that were received from the government encouraged the university to improve the teaching quality of our lecturers. The funds have been used to do many activities to improve the performance of the university such as to review performance continuously through questionnaires; improve a teaching method for lecturer by giving them training or holding courses for example, to hold a course on technology in teaching, like how to use PowerPoint, information technology, and so on; send the administration staffs to continue their studies to improve the quality of learning, especially in technology, finance, etc".

This results of this study show that state intervention was effective in facilitating organisational change when it awarded funds directly to organisations to support their efforts to find and implement new practices. The view in this study that state or government bodies can impose change is consistent with DiMaggio and Powell's (1991) interpretation for explaining why an organisation changes. It is also consistent with the notion that changes can be exerted on other resource and support dependent institutions (Pfeffer and Salancik, 1978).

Over the last few years, however resource pressure has increase in the universities. As non-profit institutions, the universities require new revenue in order to compensate for government funding cuts. The reduced funding provides an explanation as to why the two universities increased student fees. When government funding is insufficient to meet the organisational objectives, the universities look for other ways to raise income through their own activities such as tuition fees from students and opening new programs of study. This is similar with finding from Lee (2001); Parker (2002) that argue that resource pressure brought an university to the idea to search for other sources of income apart from government funds.

In addition, the reduction in government funding gave managers more sensibility to the deficiencies in the current model (such as the current budgeting systems).⁵⁶ The funding cuts from the government following the economic crisis in Indonesia made it necessary for the universities to implement effective resource allocation to ensure that resources were being used efficiently. This gives the universities a reason to apply the new budgeting systems. These findings supported the study from Singh et al. (1991) that concluded that reduced government financial support for an organisation will force change in an organisation's systems.

Chapter Seven of this study found that the political climate in Indonesia is unstable. The crisis in Indonesia intensified and accelerated the process of change in economy and also in the social and political spheres. After the resignation of President Soeharto, Indonesia now has a democratic government that operates in a very different environment from the old autocracy. Indonesian people are demanding freedom and democracy and want to be able to influence policy through public debate, legislature, media and many non-governmental institutions of civil society. They participated in demonstrations and strikes called by different parties to pressure the government to create clean governance, free from corruption, collusion and nepotism that are the bases of a democratic system. This has been also argued by Grindle (1997) that in developing country, graft and corruption are normal modes of doing public or private business. The public demonstrations were very successful in exerting pressure on the government, and resulted in the resignation of President Soeharto after 32 years in power.

⁵⁶ Further explanation of this matter could be found in section 11.4.1.

The introduction of a democratic system in Indonesia has resulted in changes in the management control systems in Ajar and Didik university. This change was recognised by the Rector of Ajar university in his speech at the appointment of the Deputy Rectors:

“This world is changing from the old pattern towards democratisation. It means that, in the process of democratisation, the community may play a role in determining its own future. In the educational environment, the community may also take part in the role of determining the future of educational institutions, like the one in this university.”

As also has been stated by Lee (2001), reforms in the two universities have resulted in a restructuring of the relationships between universities, the government (including its bodies), and society. After the higher education reforms in Indonesia, the state universities are not only accountable to the Ministry of National Education but also in various ways to its stakeholders such as students, parents, and the general public. More information about the Indonesian political situation can be found in Chapter Seven of this paper.

This study provides evidence of coercion used by MWA (The Board of Trustees) to change the systems in the universities. Coercion by organisation owners and board members has also been recognised in previous studies by Fligstein (1996); and D'Aunno et al. (2000). In Didik University, the MWA demonstrated its coercion through the establishment of Rules of Association (ART) for the university⁵⁷. ART itself has been used by MWA to establish the guidelines that should be followed by the university in order to manage its day to day activities. This can be interpreted as a form of coercive isomorphism. Example of this, section 10.2.2. describes that Ajar University

⁵⁷ The university explains the meaning of the Rules of Association (ART) as follows: “The University Rules of Association are the regulation and further identification of the provisions mentioned in the Government Regulation regarding Stipulation of the University as a state-owned legal entity”. In other words, the university ART are the newly stipulated operational rules to regulate the new system due to the change of university status. These ART are the follow up to the legal basis for the university to become a BHMN, namely Government Regulation (PP) No 152 of 2000. It can also be said that these ART are the guidelines to the implementation of such PP, and so they technically regulate the system.

has not implemented a new management structure because MWA in the university has not agreed the ART. In another side, Didik University has implemented a new management structure after MWA has approved the ART.

Another example is MWA, as the universities' stakeholders through the rules of association (ART), demand that the university report its activities continuously to them. For example, to meet the demands of the MWA, Didik University must report continuously on financial matters. To comply with this demand, the university has established a fibre optic network. Since the network has been in place it has helped the University to improve the monitoring of the financial condition of all of the faculties in the university. The university owns an intranet network on campus that covers all of the institutions in the university. In every faculty, the network covers a minimum of three areas, namely Dekanat, library, and the lecturers' room. A respondent from the Directorate of Finance of Ajar University said:

"The information technology systems help the university, as the administration centre for all faculties, to find the pattern of faculty finance. We can monitor the reports that the faculties send from here. It uses a one-way system, which means that only the university has the authority to see all of the faculties' finance in the university. One faculty can't see another faculty's finance."

11.2.3. MCS Change because of Coercive Pressures

This sub-section further discusses some areas of practice in the universities that have been changed due to coercive pressures, such as: the university status; strategic planning; budgeting systems; financial reporting; setting of tuition fees; appointment to management positions; and organisational structure. Coercive factors which have facilitated the implementation of the new practices in the universities will be discussed in this sub-section.

The first area that has been changed because of the coercive pressures is the status of the universities from government units to autonomous institutions. In this study, the grant of autonomy status from the government has been a foundation for the universities to change their existing systems. As has been described in Chapter Seven of this study, the Government Regulation No.61/1999 of reform in higher education was introduced by the Indonesian government in response to the pressure from the external environment of Indonesia, for example economics, politics, globalisation, and pressure from foreign donor institutions. This regulation can be seen as the formal assurance of the jurisdiction to execute management as self-management.

The decision by the Indonesian government to issue regulation No.61/1999 about the grant of autonomy status to the universities, presented an opportunity for the universities that were part of government units to become independent administrative entities. Interviews revealed that the higher education reform gave more freedom and opportunity to managers in the two studied universities to manage themselves.

11.2.3.1. Strategic Planning

As has been examined in previous chapters, after the grant of autonomy, the universities introduced strategic planning into the organisations. The higher education reform resulted in the universities having more freedom from the government in order to decide their own strategic planning, including their vision, missions and goals. Watts (1994) and Crebert (2000) made a similar finding in their study about the reforms in the Universities in Australia by saying that after the reforms the universities have been required to develop mission statements and strategic plans.

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As a result of reform, the studied universities were required to provide institutional vision, missions, business and strategic plans. This thesis identifies that the use of strategic planning processes has been strongly influenced by a number of government pressures. First, the pressure from government regulation No.61/1999. Government regulation No.61/1999 about the grant of autonomy status to the universities promotes diversification and differentiation since the regulation gives more freedom to the autonomous universities to set their own vision, mission and strategy (see also Yamamoto, 2004).⁵⁸ Second, this study also identifies that the government, through DIKTI, requires the universities or their academic units to submit their vision, missions and operational plans in order to get the funds from the institution. Hence, there is no resistance from the employees to the universities' policy to introduce the use of vision, mission and operational plans in all the universities' units, since this policy is required in order to secure funding from the government. D'Aunno et al.'s (2000) study supports this finding by saying that state intervention was effective in promoting change when it awarded funds directly to organisations. Beside that, the strategic planning has been introduced by the universities to satisfy their external constituents (i.e. wider society, industry and government) which they demand to create a more effective and open government unit.⁵⁹ According to institutional theorists (such as DiMaggio and Powell, 1983) all the above factors provided coercive pressures for the implementation of strategic planning at the Universities.

As has been discussed in section 10.3, it appears that only universities' leaders designed the universities' strategic plans. They start by producing the organisational mission and vision which were translated into strategy. After this, faculties and departments prepared their own plans according to the universities' plans. In this stage, the managers

⁵⁸ More explanation about this law could be obtained in section 10.3.

⁵⁹ As has been argued by Nelson et al. (1998) that strategic planning is a tool that can help ensure that an organisation's activities will be effective.

in the faculties and departments was not involved or consulted in the preparation of plans at any other faculties and departments. Faculties and departments in the universities run independently and there is no synergy between them to reach a common goal, vision, or mission. As a result, one could argue that the plans would not be effective since there is no synergy between the units. One could also argue that when plans are not linked between units in an organisation, there will be an implication for the usefulness of the plans. Cerbert (2000) supports this view by stating that to make plans effective, it is important for the plans at all levels to be cohesive and communicated. This discussion provides evidence that the use of strategic planning in the two universities is only to gain an acknowledgement from the external constituents (such as public opinion) that the universities have achieved good governance in their activities and to secure funding from the government, rather than for achieving efficiency. Similar findings have been made by Tolbert and Zucker (1983) that civil service reform in the study was adopted because it became symbolic of good governance rather than because it was efficient. This is consistent with Meyer and Rowan's (1977) argument that gaining legitimacy can be a sensible approach because it implies responsible management, pleases others in the external environment, and avoids potential claims of negligence if something goes wrong. For example, the universities while adopted Activity-Based Budgeting for efficiency also retained Line-Item Budgeting to comply with government regulation (thus to gain legitimacy).

11.2.3.2. Budgeting Systems

Interviewees in the universities commented that the new policy from government (e.g. Presidential Instruction No.7/1999 on the System of Finance Report of the Government Institutions and Law No.17/2003 on State Finance) persuaded the universities to change their finance reports. These significant changes have already occurred since the new

government came to power in 1999. The Indonesian government has embarked on an extensive clean-up of national legal frameworks. The implementation of these laws and regulations is an indication of the willingness of the Indonesian government to improve its corporate governance and to eradicate the culture of corruption, collusion and nepotism (KKN) to drive Indonesian society to greater transparency and accountability in both government and business (Dean, 2001). In addition, the Indonesian government has also been influenced by the IMF, which has been a donor for Indonesia. Since the Asian financial crisis, the IMF has begun to include transparency and anti-corruption measures as part of its loan conditions (see Carmichael and Kaufmann, 2001).

As has been explained in Chapter Nine, before the grant of autonomy, the two universities used figures from previous years with line item-based budget to prepare their annual budget. The interviews revealed that even though the universities' managers realised that a line-item based budget were poorly suited to the universities, the managers of the two universities have been forced to adopt the approach since the law issued by the government – the supplier of key sources - required the universities to do so. This is consistent with the argument of DiMaggio and Powell (1991); Meyer and Rowan (1991); and Collier (2001), that organisations adopt practices or structures - even though they are poorly suited for the task – that have been mandated by external constituents (such as government) to ensure the universities survival for the resources.

As has been discussed in Chapter Ten, since 1999 the two universities have used two different kinds of budgeting systems. The first system is used for the budget from the government (routine and development budget) and uses the system that the government applies according to a very old Law on Finance of 1925 (Indische Comtabiliteit Wet/ICW), a legal product of the Dutch colonial rule. The second system is used for the

funds received from the private sources, and is applied according to Law No.17/2003 and Presidential Instruction No.7/1999 on the System of Finance Report of the Government Institutions.

According to the ICW 1925, the universities have no authority to manage the budget from the government.⁶⁰ The routine budget is a commitment or allocation from the government for the area of education. One of the routine budget items is the salary of the lecturers and employees. Up to now, the government, through the Department of National Education, gave funds to the university fully equipped with an obligatory budget design: the university has no authority to change it. Therefore, the universities also have no authority to change the salaries of civil servant lecturers or employees of the universities. A further effect is that the universities/Rectors cannot manage or control their own funds. Commenting about this, one of the correspondents from Ajar University said:

"Let's say that, even though the university already has BHMN status, it is still difficult for it to manage its own finance. There are other binding rules, such as the government not yet giving the freedom for the university to administer the funds from the government independently."

⁶⁰ In the future, another effect caused by autonomy is that the contribution from the government has changed into block grants. The government gives a number of funds, the use of which is up to the university. The policy to practice this block grant system failed, resulting in a dispute between the Department of National Education and the Department of Finance concerning rules that manage state finance, which is as yet unsolved. For example, even though the university parties and the Department of National Education agreed to implement the block grant system, it was blocked by the Department of Finance, which disagreed with the block grant system. The Department of Finance has a great role to play in carrying out management activities in state universities because the Department of Finance is the only institution that controls all of the government finances.

This disagreement has arisen because of the approach to rules that managed the movement of the Department of Finance. An illustration of this is that, despite the bestowal of autonomy being managed by government regulations, the regulations were overcome by a state finance law that hindered the Department of Finance in giving full autonomy to the university. The Department of Finance day to day activities is also limited by the Financial Audit Board (BPK), which has the right to inspect the Department of Finance in order to prevent illegal activities. Though the government intends to give autonomy, in practice there are so many things to prevent the bestowal of autonomy: there are also many legal devices that need to be changed, which will take a long time.

After 1999, according to the Indonesian laws and regulations, the universities have been granted the power to manage their own incomes from private sources. The reform in Indonesian higher education has been a part of government plans to increase operating efficiency in government units. The changes of law and regulations (especially Law No.17/2003 and Presidential Instruction No.7/1999) have forced the government units in general, and specifically, the universities, to restructure and adopt policies that are seen as promoting efficiency. Regulations create and reinforce routines in the two universities to make the universities reliable and accountable to their stakeholders for their performance. According to the law and regulations, to manage their income, all the government units including the universities should use budgeting that is based on activities. This is consistent with the research of Covaleski et al. (1985), who claim that organisations often change their budget systems to illustrate a commitment to efficiency. Hence, the universities applied this new budgeting system to meet governmental demands; indeed, the universities risk losing their legitimacy and external support if they fail to conform to such government regulations (see also Hoque and Hopper, 1997; D'Aunno et al., 2000).

In face of the change in the institutions' status, the Indonesian government provides assistance on planning budgeting and financial management to the institutions. As has been discussed before, changes in the universities' systems have been influenced by laws and regulations. However, changes effected in this university, including changing the line item budget to an activity-based budget, have also been influenced by the involvement of consultants from a government institute called the BPKP (Financial And Development Supervisory Board). The BPKP also serves as a consultant for all government units to assist in implementing an activity-based budget, which must be applied by all government institutions in accordance with government regulations. In

addition to these consultancy, Pusdiklat BPKP (The Centre of Supervisory Education and Training) also holds seminars and workshops for the government units.

In order to apply the new system, the Indonesian Institute of Accountants (IAI)⁶¹ - the only accounting professional body in Indonesia - through its Public Sector Accounting Compartment provide advice about the upcoming public sector accounting issues to the BPKP.⁶² In other words, the accounting professional bodies only influence the changes in the universities in an indirect way. Figure 11.3. below shows the accounting professional body's role in the change in the universities' budgeting systems.

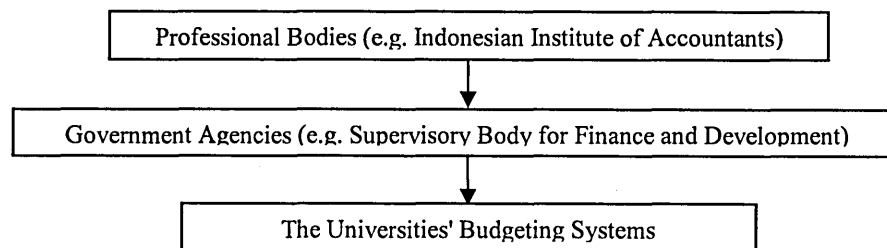


Figure 11.3 : Role of Professional Bodies in Changes in Universities' Budgeting Systems

Interviews conducted with some managers reveal that at the time of introducing the new budgeting practice, administrative managers had a lack of adequate information about the how the new practice was going to work. Hence, BPKPs influence was very strong in this matter. Its role was interpreted by one of respondents as follows:

"We are sent on courses and receive training to learn how to use the activity-based budget applied by BPKP. However, we still have had difficulty in applying this as no one in this university has a good knowledge of this method or has time to teach us about the new system, so we always have to ask for help from the BPKP."

The findings are consistent with DiMaggio and Powell (1983), that government bodies (e.g. DIKTI and BPKP) would influence the operations of management accounting

⁶¹ IAI is the only accounting profession association in Indonesia that coordinates various committees and four compartments (respectively for public accountants, management accountants, public sector accountants and academicians).

⁶² In the future, the government will delegate the authority to promulgate public sector accounting standards to IAI as the professional Body

control systems in the studied organisations. This finding supports proposition 2a (see p.152).

In order for external legitimacy to be achieved, the universities adopted the new budgetary practice in an effort to be consistent with other public sector organisations in Indonesia, who have adopted the activity-based budgeting. The universities adopted this budgetary practice to show consistent values with their institutional environment. As has been discussed in Chapter Seven, the Indonesian public sector experiences little faith from the public. In order to improve the public's perception of the public sector, it was essential for the universities and other public sector institutions to adopt this new budgetary system. This is consistent with the argument of new institutional theorists such as DiMaggio and Powell (1983) that an organisation adopts new approaches to be consistent with the expectations demanded by external constituents (such as public opinion) in order to ensure its legitimacy and its chances of survival. Another reason for the introduction of the new budgetary system is that the managers in the universities were aware of the disadvantages of the system.⁶³ More explanation about this can be found in section 12.2. In addition, this budgetary model was further legitimised by the fact that other Indonesian government units had used a similar model for some years.

However, there was a general belief from some scholars (such as Innes and Mitchell, 1995; Crebert, 2000) that the plans in an organisation's units should be linked to the plans at all levels in order to be effective. Innes and Mitchell (1995, p.131) add that activity based budgeting is meaningful because it is based on activities which cross traditional departmental boundaries, rather than the traditional budgetary system based on departments. In these universities, the fieldwork found a lack of consultation,

⁶³ Explanation about the disadvantage of the system could be found in Chapter Three

consideration, and synergy between the units responsible for preparing the budgeting plans. As further evidence of the lack of synergy, even the heads of departments in the same faculty involved in the budget preparation were not involved or consulted in the budget preparation at any other departments in the faculty. This lack of synergy has occurred because the internal condition in the universities caused the universities not to be seen as a university, but as 'multiversity' where each faculty and unit has the authority to manage itself. Some of the reasons why this lack of synergy has been occurred can be found in the section 11.4. about interplay between institutional forces and intra-organisational power relations.

Based on the above arguments, it can be concluded that the new budgeting system was used at the universities as a highly visible symbol for demonstrating to external constituents (such as the community and government) their commitment to improve the environment of the universities. Further, the new budgeting system was used to earn legitimacy and continued support from external constituents, rather than for operational purposes (such as the use of resources effectively or efficiently) because the individual departments are allowed to undertake their own budgeting activities with no coordination between each other (see Boland and Pondy, 1983; Alam, 1997). A similar argument has also been applied in the use of strategy planning discussed before.

Furthermore, public influence to improve the universities' efficiency, effectiveness and accountability is also evident in the introduction of the new financial reporting in the universities and in all government units. The use of the new financial reporting system in government units (including the studied universities) has occurred as a consequence of the Indonesian people wishing to create clean governance, free from corruption, collusion, and nepotism. The managers in the two universities argued that the post-

President Soeharto political regime is giving more opportunities to members of Indonesian society to participate in key decisions and also to manage and fulfil the needs of the community to achieve a satisfactory level of public services.⁶⁴

The Indonesian government communicated their expectation for the new approach of financial reporting in the universities in legislation and policy (Law No.17/2003 on State Finance and Presidential Instruction No.7/1999 on the System of Finance Report of the Government Institutions). In the government regulations that managed the bestowal of autonomy on the autonomous university, there were some articles about financial administration policy, which obliged the financial management of the university to pay attention to efficiency, effectiveness, productivity, autonomy, accountability, and transparency.

The senior managers recognised the importance of financial reporting and budgeting systems for securing government funding for the institutions. The managers also have an obligation to follow government policy since their status is that of civil services. This is consistent with the institutional view that political pressure can provide the necessary momentum for organisations to change their routines (DiMaggio, 1991; Scott, 1995). Hence, to satisfy their stakeholders (i.e. society and government), it is essential for the universities to lay down transparent systems to reduce inefficiencies within the system. As for the background of the issuance of the Presidential Instruction that regulates the implementation of Performance accountability Reports for government units (Laporan Akuntabilitas Kinerja Instansi Pemerintah / LAKIP), a correspondent explained:

⁶⁴ The new political view of the Indonesian people is that public sectors are public ownership which means that all citizens of the nation have legal claims on an public institution's assets and profits. This new political view has changed the old view that only government (i.e. man in power) who has power to manage the institutions.

“The use of this LAKIP constitutes the government’s effort to establish a clean and transparent governance, which is able to attract community participation and public accountability.”

Since the Presidential Instruction No.7/1999, which required universities to change their financial reporting system to LAKIP, a correspondent has commented:

“We are obliged to obey any prevailing laws from the government and/or the House of Representatives (DPR). We can’t avoid it. It’s our duty to execute the Instruction.”

This is consistent with the institutional view that political pressure can provide the necessary momentum for organisations to change their routines (DiMaggio, 1991; Scott, 1995; Scott and Christenses, 1995). Such views are also consistent with performance management literature (such as Holloway, 1999) that suggests that the political environment needs to be considered in order for systems to be successful.

11.2.3.3. Price Decisions

The next area that has been affected by the coercive pressures is the setting of tuition fees in the universities. For the last few years, pressure on resources in the universities has increased because of government funding cuts. The reduced funding provides an explanation for why the two universities increased their student fees. Hence, the universities have looked for other ways to raise income through their own activities such as tuition fees and admission fees from students. In addition to the funding cut from government, the government regulation No.61/1999 and Law No. 20/2003 also encourages the universities to generate extra revenue from students (e.g. the introduction of ‘admission fees’). For example, Article 24 of Law No.20/2003 on the national education system allows the universities to collect public funds and manage themselves.

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However, as state-owned institutions which operate in the educational field, any universities' decision related to the service price that a student is obliged to pay is also connected to other laws and legislations that inhibit the universities' decision to generate extra revenue from students. As state-owned universities, they have to support the government obligation to the public to provide education to all members of society, as has been stated in article 31 paragraph 1 of the 1945 Constitution: "any citizen has the right to receive an education". Therefore, to support the government in meeting the requirements of this statement, the universities have to attempt to set the tuition fee as low as possible. Regarding the Government decree to impose prices for students, a correspondent said:

"The 1945 Constitution of the Republic of Indonesia itself explained that any citizen has the right to a appropriate education at a reasonable price, which means that the government should be on the people's (students') side, particularly, in this case, this university only set a low tuition fees."

The discussion above provides evidence that laws and regulations would promote or inhibit the MCS change in the universities. These argument is consistent with propositions 2a and 2c (see p.152 and p.153).

11.2.3.4. Appointment of the Universities' Managers

This study further discusses how coercive pressure facilitated changes in the universities' appointment procedure. In Ajar and Didik Universities, the appointment of a management position (for example, Rector and Dean) has been influenced by the universities' external environment changes (such as laws, regulations and public opinion) that have been discussed above. The appointment of the universities' Rector follows the new Indonesian political view to give a chance to the members of the society to participate in key decisions, democracy, transparency and accountability.⁶⁵

⁶⁵ More explanation about the Indonesian political environment can be obtained from Chapter Seven

The Rector is not appointed by the government but by all the stakeholders. The process of selection is open to all strata of society and is reported to the public. This new approach also has been supported by the availability of technology such as the use of CCTV, large screen television, and the internet.

It was noted in Chapter Ten that appointment of Deans of Faculties in Didik University is now very much considered part of the management process and a person is usually appointed rather than elected to the position. This finding is similar to the approach used by Australian universities after the universities reforms in Australia in 1988 (see Meek and Wood, 1998).

The introduction of new principles (democracy, transparency and accountability) in the Indonesian environment is also reflected in the appointment of administrative managers. With the coming of democracy to Indonesia, there are now new practices in the universities for the appointment of each management position. The process has changed from one of automatic promotions, based on seniority, which has been a fundamental characteristic of the Indonesian civil services, into promoting a culture of competition in order to appoint each position. Such competition for a position in public sector institutions was absent during the Soeharto era. Interviews revealed that when promotions are largely automatic, individuals have little incentive to compete by performing better. Hence, the poor performance of the universities can be interpreted as an unfortunate legacy of the lack of competition in the appointment of the management positions. This finding is consistent with DiMaggio and Powell (1988), Covalski and Dirsmith (1988b), and Mizruchi and Fein (1999) that organisations experience pressures to conform to the expectations of the larger society – to adopt new systems or practices.

This finding further supports proposition 2b (see p.152) that the political environment would influence the operations of MCS in the universities.

11.2.3.5. Organisational Structure

Finally, the coercive pressures also affected the universities' organisational structures. As has been described in Chapter Ten, the significant change in the organisational structure of the universities has been the establishment of the new governing body (MWA) that has legal powers and responsibilities to manage the institutions. This system is similar to the governance practice in the context of Australian public universities, where, after the universities' reforms in 1988, each university also has a new governing body that has more than 20 members (see Meek and Wood, 1998, p.167-168; and Chapter Ten of this thesis).

In addition, the fieldwork in the universities found that a willingness to achieve new goals and improving the efficiency, effectiveness, and accountability which are demanded by public and government was the real force behind the change in organisation structures in the universities. In Didik University, this willingness has also been aided by political support from the government, public and the MWA (such as: the grant of autonomy, law reforms and the issue of the Rule of Organisation by MWA) which has facilitated the reform of the university's organisational structure. However, in Ajar University, MWA has not issued the Rule of Organisation which would give legitimacy to the leaders of the university to reform its organisational structure. As a result, in contrast to Didik University, Ajar University has not reformed its organisational structure.

In the case of Didik University, there was no difficulty in convincing staff that the current structure was no longer suited to current conditions. The current structure itself has not been remodelled since 1989 after the government issued a regulation about the organisational structure in all Indonesian state higher education institutions. The previous organisational structures are considered to be ineffective since the universities autonomy status increased the span of the universities management from government units to be more dependent institutions which are more complex in their day to day activities. In addition, the competitive pressures and the reduction in government funding also rendered the current structure ineffective. This discussion leads to the argument that the external pressure for change created an awareness that the current structure was working ineffectively. DiMaggio (1991) supports this argument by noting that management in an organisation relies on the external pressures for change to help gain acceptance and legitimise the new structure.

The new organisation structure has been designed based on visions that have been created by the leaders of the universities.⁶⁶ To support the universities' visions, the new organisational structure established new institutions (such as Audit board). It is argued that by changing the structure, the organisation was seen to be improving its accountability and efficiency. According to Pfeffer (1981), organisational structure reforms have been influenced from two perspectives which are: to improve the efficiency of the organisation; and as a result of struggles for political legitimacy. This study has asserted that the changes in organisational structure in Didik university is for improving control of operations (e.g. efficiency and efficient) as well as gaining legitimacy from external constituencies (such as the public and politicians). This supports the arguments of Oliver (1991), DiMaggio and Powell (1983), and Meyer and

⁶⁶ See chapter Eight for more explanation about the universities new visions and missions.

Rowan (1977), who claim that the influence of both perceived legitimacy and efficiency gains are determinants of compliance with institutionalised practices. A similar assertion has been made by Covalski et al. (1993) who claim that the changes in universities' financial systems have been forced by coercive pressures to conform with efficiency.

The change of organisational structure can affect the balance of power and may incur resistance from the actors whose status has been threatened (Baldrige, 1971). In Didik University, resistance to the organisational structure reforms occurred at two levels: the academic units and administrative units. This topic will be explored further in the section 11.4. about interplay between institutional forces and intra-organisational power relations.

This section concludes that reforms in the universities have been influenced from two perspectives, which are: (i) to improve the efficiency of the organisations; and (ii) as a result of political struggles for control. The author has demonstrated in this case that the external environment, such as government entities and legislation would influence the operation of management control systems in an organisation. This again supports the study proposition 2a about the influence regulatory environment on the design and use of MCS (see p.152).

This study agrees with Fligstein (1996) and Dacin et al. (2002), who argue that the government is an important key driver in promoting changes in a government unit, since a government unit is organised and operated by the government, including what roles super-ordinate authorities (e.g. boards) should play in decision-making. This study also provides evidence that a change in the environment requires an organisational response

or change if an organisation is to survive. This means that management must be receptive to environmental changes as well as internal changes in the organisation. Hence, with a change to government legislation and policies, the universities have to respond to the change to continue operating as legitimate organisations (Deegan, 2002).

11.3. Normative Isomorphism

This section provides evidence to suggest that the willingness to maintain institutional stability and legitimacy from other organisations (e.g. professional bodies) and the willingness to comply with the national and organisational cultures would bring an organisation to adopt certain management accounting control practices (DiMaggio and Powell, 1983; Granlund and Lukka, 1998).

According to DiMaggio and Powell (1983) and Greenwood et al. (2002), professional associations are a key source of normative isomorphic pressures. However, in these case studies, MCS change has been more influenced by the national and organisational cultures (Granlund and Lukka, 1998). In the financial matters, as has been explained in section 11.2.3. before, the influence of IAI - Indonesia's only accounting professional body - is only through their advice to government agencies. However, the IAI does not have enough political supports or resource power to influence the government agencies or universities to follow their standards. The accounting body only gives advice to government agencies (i.e. Finance ministry, National Education ministry, and BPKP) to force the universities to follow the accounting standards. The minimal influence of the professional bodies in the case as discussed above contradicts arguments developed in proposition 4a of the role of professional bodies as normative isomorphism (see p.154).

Hence, this study found that, in terms of normative isomorphism, national and organisational culture are the most important factors that facilitated the changes in the universities' MCS. This phenomenon has been supported by the argument of Granlund and Lukka (1998) that in the context of normative pressure, national and organisational cultures have traditionally been seen as perhaps the most important drivers regarding management accounting practices. A large number of studies in management accounting (Hoque and Hopper, 1994; Broadbent, 1999) also conclude that culture is one of the external influences on an organisation in the successful of implementation of new management control systems. This argument has been also supported by Gary et al. (2000), who argues that organisations should conform to the accepted norms of their population.

11.3.1. The Cultural Impact

It is very useful to analyse organisational cultures and the way in which they are created, kept alive, modified, used and destroyed (Cooper, 1981). Preston (1995) concludes that organisational cultures may sometimes impede or enhance creativity. In order to explain the adoption or evolution of control systems in organisations in Asian countries, culture and social relations must certainly be taken into account (Ansari and Bell, 1991). Hence, this study will highlight some of the crucial cultural issues that may well explain some managerial practices in the studied universities. To do that, this study relies on linguistic categories and idiom. In this study, a number of key Indonesian and Javanese idioms or phrases (such as: The main characteristics of Indonesia's collective society are collective decision-making processes (*musyawarah*), unanimous decisions (*mufakat*), family atmosphere (*Keluargaan*), cooperation (*gotong royong*), *Bapakism*) are used to drive the explanations. More explanation of these phrases and idioms can be found in Chapter Ten of this study. This method has also been used by Ansari and Bell (1991) to study family owned business in Pakistan that used Urdu language to drive

their explanations. The importance of family ties within the Indonesian context has also been identified by other studies (e.g., Rademakers, 1998; Dean, 2001).

Some of the changes in management activities in the organisation can be explained based on culture and social relations. Analysis in this study shows that culture is very important in the Indonesian context (Dean, 2001), as decisions are made on the basis of socio-cultural relations. For example, as the case illustrated, staff recruitment was based substantially on social relations. Preference is given to prospective employees who have relations in the organisation, or to those who have graduated from the University. This is very similar to Ansari and Bell's (1991) findings in a Pakistani firm.

This section provides findings that although external parties such as government bodies provided the pressure for change, the initiation of change was made at the senior management level. Leaders were involved in explaining the archetype to their subordinates and managing the change. In these two case studies, changes in the universities' systems have been initiated by the universities leaders by creating visions and missions of how they would like the organisation to look. In this study, there is evidence that the new universities' systems were designed based on a vision created by the leaders of the universities such as: changes in organisational structure which follow the vision.

In these universities, the power of the leaders comes from the acceptance of national culture. In accordance with organisational culture in Indonesia, a leader is an extremely important figure in bringing change to an organisation. Organisations in Indonesia have developed a participation culture based on the consent principle and still look up to the

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top officers (in Javanese, this is called *ing ngarso sing tulodo*).⁶⁷ Moreover, one factor that is also inseparable from organisational structure in Indonesia is the realisation of the paternalistic organisational culture, which always seeks a 'patron' figure to serve and protect their subordinates. According to Indonesian style of leadership, a leader should demonstrate *musyawarah* (mutual deliberation); *mufakat* (common unanimous decision); and *kekeluargaan* (family atmosphere) in the organisation that he or she leads. These are the principles that are used by the Indonesian people to run their daily activities. The national culture remains the most important process in management activities in Indonesia. Thus many decisions regarding the universities' employees have been related to informal management control activities, such as those that have been discussed in previous chapters. This is consistent with Dean's (2001) conclusion that in Indonesian organisations, decisions are made at the top (but by consensus) and are respected by those who are not in authority.

Employees in the universities, however, respect and accept the leaders' position in the organisations, based on the Javanese cultural tradition. Javanese culture itself is the most influential culture in Indonesia (Dean, 2001). Dean (2001) argues that Javanese society is highly hierarchical, with great power distances between each level within a social structure. Subordinates are expected to respect those in authority and are not allowed to question such an authority. Status is strictly defined by obligations and responsibilities, which tend to limit movement within the network. As Dean (2001: 4) points out: "*It will be very uncommon indeed for a person lower in the network to overtake their patron in terms of rank or income*". In these universities and most of government units, subordinates experience a lack of general initiative which occurs as

⁶⁷ Javanese is the most influential culture in Indonesia.

part of the paternalistic approach to Indonesian corporate culture. More explanation of this could be obtained in section 11.4.1. in this chapter.

The influence of culture as a power for an individual is consistent with Burns' (2000) findings.⁶⁸ This is also consistent with the fourth dimension of power recognised by Hardy (1996), which entails that power in an organisation lies in unconscious acceptance of the values, traditions and cultures, that captures all organisational members in its web. With the factors discussed above, it therefore became difficult for the universities' employees to reject the new systems applied in the universities.

Besides this, the "forgiving" culture, that is taught both in the culture and the religion of Indonesia, affects management decisions in the university. A remark such as "even God forgives His servant who has committed many mistakes, we as human being should do that too" is the term that is frequently used when someone is found to have made a mistake. As a correspondent said:

"The 'Forgiving Culture' results in a feeling of reluctance to sanction to a guilty person. When the mistakes are not that big, they only get a written warning."

As has been discussed above, the appointment of new employees having civil servant status at this university was fully the right of the government (see Chapter Nine). Moreover, as also occurred in many other government agencies, the filling of a job vacancy in a government agency, including this university, was not always announced in the existing mass media, which is why the candidate usually originated from among those who were acquainted with one of the employees of that office. This situation added to the strong nuance of corruption, collusion and nepotism in Indonesia,

⁶⁸ Burns, J (2000) The dynamics of accounting change inter-play between new practices, routines, institutions, power and politics

particularly when the government still had a role in the recruitment of employees in this university. Further consequences of this situation were stated by one of the managers:

"If we look, there are a lot [of] employees in this university who originate from the same family. In other words father, son/daughter, nephew/niece and other relatives get together to work at the University."

As a result, the problems faced by the officials at the universities in regulating the employees were difficult enough: because of the very high incidence of family relationships between employees (kekeluargaan), it was hard for superiors to issue warnings to their employees. Hence, all problems between the people in the two studied organisations have been solved through collective decision-making process (musyawarah) between them. As stated by one of the superiors:

"The warning given to an employee by me as a superior means that, at the same time, I will become hostile to a number of employees, who are friends or members of the employee's family."

Since the culture has a very strong influence on the universities' activities, it is very difficult for the universities to change their existing systems such as rewards and punishment, and so on. As regards the change of status of Didik University, a correspondent commented as follows:

"Regarding the period of status change for a university, for it to really change needs a long time. This university needs to adapt the culture of civil servants, who are used to working at ease."

The universities, in implementing the changes to the management system, were faced with changing the civil servant (PNS) culture into a corporate employee culture. A director at Ajar University stated as follows:

"Up to now, I see the still-strong influence of the civil servant's habits. I see we are not yet able to release ourselves from these habits. We may be able to overcome this little by little."

In summary, the social relationship explains the actual power structure within the organisations. This study argues that individual and community cultural values are very powerful and are able to explain many control practices within organisations. The adoption and evolution of control systems in the organisation are significantly shaped by the Indonesian culture. However, this study also shows that the Indonesian culture has been a barrier for the universities to change their existing system. This study supports Preston's (1995) argument that a culture may impede or enhance creativity an organisation. This finding is consistent with proposition 4b that culture would promote or inhibit the organisations to adopt certain management control practices (see p.155).

The arguments in this study rely on two cases and the author does not wish to generalise these views to all settings. However, this case has highlighted some of the crucial culture issues that may well explain some managerial practices in Indonesian organisations especially and in less developed countries in general. Thus, this study adds to the small but growing body of empirical field research in this area. To summarise this section, table 11.4. below highlights some of the cultural factors that influence management control practice in the universities especially and in Indonesian organisations generally.

<p>Cultural factors that supported the organisation to change:</p> <ul style="list-style-type: none"> - Still look up to the top officers (in Javanese, this is called <i>ing ngarso sing tulodo</i>) - The word <i>Rukun</i> that teach Indonesian people to avoid conflict at all cost. - Respect all the leaders' decisions 	<p>Cultural factors as barrier for the organisation to change:</p> <ul style="list-style-type: none"> - Democracy and <i>musyawarah</i> principles - Forgive each other - family relationships
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Table 11.4. : Influence of national and organisational culture

11.4. The Interplay between Institutional Isomorphism and Power Relations in Facilitating Changes in the Management Accounting Control

The following subsections examine the power relationship in the universities. This section is provided to solve the shortcomings of NIS identified in Chapter Four of this thesis – i.e., its failure to recognise the relations of power between the different institutional actors and its inability to show the role of management and accommodate or reconcile the competing interest. NIS scholars (for example: Oliver, 1991; Goodrick and Salancik, 1996; and Kostova and Kendall, 2002) emphasise the role of interest and agency in analysing and understanding the impacts of institutionalised organisational processes.

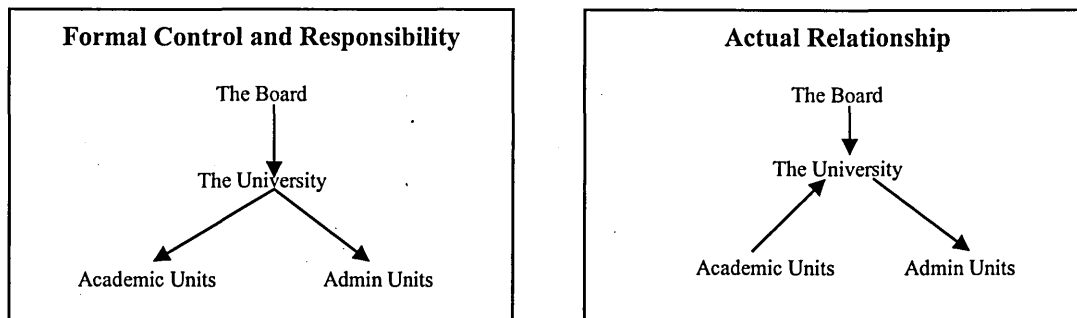


Figure 11.5 : Industrial relations in the Universities

Figure 11.5. above shows the formal and actual relationship in the universities. Formally, the Board acts as a supervisory board for the universities and the universities' senior managers are the highest executive managers that look after all day-to-day activities in the universities. All managers report directly to the senior manager of the universities. However, in reality, the universities have trouble controlling the activities of the faculties, such as the problems conveyed by a respondent:

"According to my observations, the faculties deem themselves as small kingdoms. The presence of this autonomy adds freedom for them to govern themselves. This has made auditing difficult to carry out due to the lack of accessibility. Even the Dean also feels that it is difficult to control the units within the faculty."

Hence, power relations between the internal units in the universities have the potential to be oppressive or to enable an organisation to adapt to its environment (or its problem) and also facilitate management reforms in an organisation (Salancik and Pfeffer, 1977).

The next two sub-sections discuss the positive and negative aspects of power in facilitating the changes of MCS in the universities.

11.4.1. The Positive Aspect of Power

This sub-section further discusses the role of power in facilitating change in the studied organisations. This role of power, which is considered in Giddens' (1976) analysis (see Collier, 2001), facilitated the implementation of the autonomy and the budgeting process that will be discussed in this sub-section.

As has been discussed in Chapter Nine, before the government granted autonomy status upon the universities, the managers felt as though they had little influence over the resources they managed, and had limited ability to run the universities to satisfy the public demand since all the decisions were in the hands of government. Before 1999, as a consequent of government control over the universities, the universities' managers manipulated the use of the budgets. This finding is similar to the finding of Hoque and Hopper's (1994) study of a large nationalised jute mill in Bangladesh. Hoque and Hopper's (1994) study revealed that the organisation had little authority over its operational activities, and the government were prominent in organisational planning and control since the mill operated in regulated a environment.

In light of their lack of influence, all senior, middle and lower level managers in the two universities accepted the government policy to grant autonomy status to the universities because the managers believed that such status would reduce government control over the universities and give more freedom and opportunity to the universities to manage themselves. A Deputy Rector responded to this reality:

"We were fed up for such a long time. We were not even allowed to manage our own money: they (the government) just gave us a budget that we must spend. From now on we should learn to manage by ourselves."

Many managers in the universities recognised the benefits they would receive from the autonomy status as one of the managers argued:

“Three essential benefits will be received through autonomy. Firstly, initiatives will emerge to manage potential and ability. Secondly, the university will be able to increase the democratisation process and push for a more independent role through trusteeship to develop the university. Thirdly, an autonomous campus will enable the strengthening of the capacity of the institution to be able to plan, to implement and to take the benefit from it, as well as to develop continuously.”

Because the managers believed that they would receive benefits from the grant of autonomy from the government, there was no resistance or conflict between the managers in the universities with the government decision to make the universities autonomous. A similar result has also been found by Collier (2001), who revealed that the willingness of the managers in the West Mercia police force to have more freedom to manage their day-to-day activities gave support to the decision to change of the organisation status. This is consistent with Giddens' (1976) assertion that power is not necessarily conflicting in circumstances where interests coincide. This situation is why Collier (2001) describes power as a positive force.

Furthermore, in terms of budgeting process, a university's budget is an important component of its formal structure and its attempts to justify itself to key environmental constituents (Covaleski and Dirsmith, 1988). It has been argued in the previous Chapter that the power of sub-units (departments) is an important issue in budget allocations and activity changes within the universities. The above '*bapakism*' culture did not exist in the level of faculty or lower level units. The university sub-units have the ability to influence the resource allocation process.

As has been discussed in Chapter Nine and Chapter Ten, the universities' budget preparations are different compared to the other Indonesian state universities. The budget lines were devolved to the lowest management level (departments). For a number of years, the universities have had a decentralised system of resource allocation, with faculties and departments having the autonomy to manage their financial resources. This difference in budget preparations is not an issue for the two universities studied, since they are highly prestigious organisations among the Indonesian higher education institutions, who are able to use this prestige to legitimise their actions (see Sherer and Lee, 2002).

As has been discussed in the previous chapter, government regulation demands that all government units, including these two universities, must change their budgeting system from existing line item budgeting to new activity-based budgeting. It has also been argued by Tolbert and Zucker (1996) and Greenwood et al. (2002) that institutional changes at universities require identification of failure of existing systems and the justification for a new innovation. This case study shows that the deficiencies in the existing model served to de-legitimise it (see also Miller, 1995). The managers in the universities supported the use of the activity based budgeting system since the existing system used by the universities was not perceived by managers to be a rational model to face the new environment. Senior, middle and lower level managers realised that the government funding was not enough to run the day-to-day activities of the university. Further, the reduction in government funding sensitised the managers to the deficiencies in the current model. Indonesian people in general and the employees of the universities specifically, realised that there was a lack of transparency and inequities in the government units' day-to-day activities. The line item budgeting failed to evaluate the performance of the universities (Drury, 1996). It was clear that the existing management

system of the universities, including the old budgeting systems, failed to avoid the activities of corruption, collusion, and nepotism (KKN in Indonesian phraseology) in the universities and also in all government units. In other words, all government units adopted this approach to improve the units' ability to avoid KKN.

Interviews show that the legitimisation of the use of the new budget system comes from the expectation of the managers that the new model would offer the possibility of more efficient use of resources and greater accountability. This accountability would be derived from the fact that the budgeting decisions would be based on the activities of the units, rather than on the previous years' figures. These facts led the managers to reject unilaterally the old budgeting framework. Connolly and Ashworth (1994) argue that the activity based budgeting, which is now used by the universities, wins the support of managers because it is open, fair and highly participative.

Accordingly, the managers in the universities did not oppose the use of the new budgeting system, even though the implementation of the new activity based budgeting required the managers to learn some new concepts and tools since activity based budgeting is more complicated than the line item budgeting system that has been used by the universities for such a long time.⁶⁹ Meanwhile, the issue of resistance did not arise in relation to the rest of the staff since they were not directly affected by the new systems.

⁶⁹ While Babbini (1999) argue that the senior managers have to face the rather more difficult task of making resource prioritisation decision based on customer demand rather than starting with the existing budget to build a new budget. He continues that operational managers have to get serious about adopting new approaches to budgeting since they would have to describe and quantify the relationship between their objectives, the activities that they will have to perform and how these will consume resources. In conclusion, they have to think how plans will be accomplished.

This finding is consistent with the view that budgetary systems change when powerful individuals are dissatisfied with the system (Greenwood and Hinings, 1996). This finding is also consistent with the Giddens' (1976) conception of power that was introduced in Chapter Four. The Giddens' study emphasised that power does not necessarily imply conflict in circumstances where interests coincide.

At the same time, management in the universities understood that in order for the reforms to be successful, they needed to engage in campaigns to persuade others both inside and outside the universities to legitimate their reforms. The universities management legitimised the new management control systems through different media such as internal newspapers, internal bulletins, training and informal discussions. These activities were appropriately used by the management, since new practices in an organisation become diffused, embedded and legitimised only if they are presented as more appropriate than existing practices and their superiority over the existing systems is clearly demonstrated (Suchman, 1995; Tolbert and Zucker, 1996; Greenwood et al., 2002). In accordance with organisational culture in Indonesia, a leader is such an important figure in the facilitation of change in an organisation. This is also the case in the universities. For example, responding to this phenomenon, an interviewee from Ajar University explained the role of the Rector in the university:

"The Rector is active enough in giving some ideas, like various reformative policies to face the university status, because the subordinates have less initiative."

The Rector revealed the reasons for this in the university monthly newspaper, as follows:

"We found a lot of hindrance to the status change. The main one is because the thought process of many campus people has become less responsive towards the new status. They still had the old frame of mind that tends to depend on the higher officers or on the government."

Therefore, the leader's initiative was needed as the status changed. The initiative may be revealed in both the perspectives and the actions of the leader concerning the development of his/her institution. For instance, the Rector in Ajar University decided it was necessary to improve the status of the Public Relations Institution of the sub-section (the lowest institution) under the Rector directly, in order to anticipate negative responses from the public over the status change. The Rector viewed the public relation institution as being very important in order to engage in public relations campaigns. However, since there was no response from his/her staff concerning the implementation of the decision, the Rector took action by appointing the institution authoritatively. The Rector has the legitimacy to initiate this because of the prestige he has as an adviser of Indonesian President for administrative matter. He has been known as one of the most prominent experts in organisation and administration issues in Indonesia. This is supported Pfeffer and Moore's (1980) argument that national prestige is one of the sources of power.

11.4.2. The Negative Aspect of Power

There are different responses for some individuals or groups over others as a basis for resistance to change (DiMaggio, 1991). In this thesis, resistance to reorganisation of the universities occurred from the lecturers in the departments and lower level managers, and also from the absence of Organisation Rules. In this case, after autonomy, no significant changes occurred in the appointment process for the Head of Department. As has been discussed in the previous section of this thesis, there are some sources of power that have been related to the resistance of the lower level managers, such as resources and historical background of the universities. The interviewees also revealed that the resistance which has occurred has been related to the democratic principle and *musyawarah* principle. Their opinion is consistent with the Indonesian culture that decisions arrived at through *musyawarah* have a very strong legitimacy in the

community, as all parties have been consulted and involved in the process (Dean, 2001). Since there was resistance from the lecturers, it was assumed that to change the appointment procedure for the Head of Department to a system similar to that used in the election of a Dean would break the democratic principle. A lecturer said:

“Based on the democratic principle, a leader is selected by the members through voting. This is in accordance with the democratic principle we accepted, in which the highest authority is in the lecturer meeting.”

This finding is consistent with Collier's (2001) study of management accounting change in the police force, which found that the resistance emanates from cultural element within the organisation. The argument of this thesis is consistent with the argument of other researchers (such as Collier, 2001) who argue that resistance from a strong culture slowed down managerial change.

As has been discussed in previous chapter that resistance to organisational change in Didik University also occurred in the administrative level which was most affected by the change. The interviews revealed that the resistance from the administrative managers was motivated by the perceived loss of their status, since most of the positions would be appointed to someone with masters or doctoral degrees, while most of the administrative managers only held graduate degrees. While for the other administrative staff, resistance to the new approach was based on the fact that the new system would close an opportunity for them to improve their careers as managers in their units.

However, the changes in appointment of administrative managers hasn't occurred in Ajar University since the university hasn't have an Organisation Rule as a legal basis to adopt a new appointment approach. The ability of the administrative level managers in Didik University to resist change has been limited by the cultural acceptance of the Indonesian culture, such as *a position in an organisation is a gift from God and He can*

take it from people anytime He wants. The managers also have to accept the accepted code of behaviour among Indonesians, which embraces mutual deference and respect, restraint, and politeness in order to produce harmony. In contrast to the managers at the academic department levels, the administrative managers administrative occupied a relatively weak position. This weak position has also been influenced by the paternalistic culture accepted in Indonesian society ("*bapakism*") (Mulder 1989). This paternalistic culture entails that it is very uncommon for a person with a lower rank to question authority, and all employees have to obey decisions from the leader. Hence, the administrative managers in Didik University do not have the ability to resist the implementation of the new approach in the managers appointment since they lack the resources and power to resist the decisions (see Chapter Four for more explanation about resources of power in an organisation). This is consistent with Modell (2002); Covalleski and Dirsmith, (1988a, 1988b); and Greenwood and Hinnings (1996) arguments that the ability to resist the implementation of new practices can be expected to be successful where the organisational actors can mobilise sufficient power for this purpose. This finding is also supported by the Collier (2001) finding that resistance does not always impede organisation change.

The discussion above demonstrates that intra-organisational power could either promote or inhibit changes in the organisations' MCS. Thus, this is consistent with proposition 5a (see p.156).

From the interview results it was also found that while some form of resistance exists among certain managers, conflict is not shown on the surface due to the need to maintain the cultural values. Thus, employees try to conceal any conflicts and negative feelings, and therefore, dysfunctional behaviour is hardly demonstrated. In day-to-day

activities, employees have been influenced by the word *Rukun*. *Rukun* is an important Indonesian word describing “a state in which all parties are at least overtly at social peace with one another”. In other words, according to Indonesian culture, aggressiveness and conflict are avoided at all costs.⁷⁰ More explanation about the impact of culture on conflicts can be found in section 11.3. that discusses normative isomorphism.

The cases in this study also provide us with evidence that power from the lowest units in Didik University works fundamentally against organisational change. As has been discussed in the previous section, there was resistance from employees in the university departments to the new approach of the appointment of heads of department and heads of program of study. The section discussed earlier shows that employees could accept change based on their cultural beliefs. However as discussed in this section, some cultural beliefs can also contribute to resistance as in the cases of Didik University the employees have the belief that they have power to decide the approach that is most suitable for them. The employees resist change for fear of loss of power and used their power to resist change, since their status, interest and belief were at stake. Covalleski and Dirsmith (1998) found that changes are less likely to occur if these changes threaten the powerful groups in an organisation. Coy and Pratt's (1998) review supported this argument by concluding that a group who perceive a change as threatening may have initiative to subvert or divert the idea, while another group who may perceive benefit or gain may seek ways to enhance it. Hence, there was also evidence in this study to suggest that many employees had been threatened because of the uncertainty of expectations after the status change. This study shows that culture has two different impacts upon the resistance of the actors, in that culture could impede or facilitate a

⁷⁰ For more explanation about Indonesian culture see Dean (2001) work

resistance. Collier (2001) explains this by arguing that the success or failure of resistances depend on the relative strength of the culture.

This section provides evidence that the capability of the organisational actors to resist the implementation of the new approach to the appointment of the head department emanates from the fact that the employees in the department can mobilise and sustain the necessary resources, and cultural and political supports within the organisation as sufficient power for this purpose (see also Covalleski and Dirsmith, 1988a, 1988b; Greenwood and Hinings, 1996; Modell, 2002).

In this case, there are a number of reasons to explain why the lowest unit in the universities mobilise the power over the universities and faculties management. As could be seen in the previous chapter, the comments of the interviewee suggested that the power obtained by the lower level units emanates from the power related to resources (Salancik and Pfeffer, 1974; Hardy, 1996); national and organisation culture (Hardy, 1996), knowledge (Hardy, 1996) and seniority. As a result, power has been a major influence on organisational change. The following subsection discusses the source of the units' power that enables them to influence their superior.

11.4.3. Power Bases

This subsection examines the source of the units' power. This examination is essential at this point in the thesis, because the power that the units have influences the day-to-day management of the universities. This study argues that six power bases are critical in the universities' management: fund, historical background, professional, prestige of the individuals or institutions, seniority, national and organisational culture, and the civil servant status of the universities employees (see table 11.6 below, which shows the

six power bases). The following examination provides a more in-depth description of the six power bases.

The source of units' power

- The ability to obtain much more money from outside grants and contracts
- The historical background of the universities establishment which from the unity of faculty into one single university.
- The knowledge of the people
- The individual in the units have national prestige for their contribution to the environment. E.g. as high ranking officer in government (Ministers, etc)
- Power also emanates from national and organisation culture (e.g. Respect senior/elder people)
- The employees' status as civil servants

Table 11.6: The source of units' power

11.4.3.1. Ability to Obtain Funds From Outside

The first source of power is the ability of an institution to obtain more money from outside grants and contracts. Chapter Three of this study found that many published articles assert that if an individual or organisation has resources, it also has powers, and if an individual or organisation has resources, it can make decisions and exercise greater control (Pfeffer and Leong, 1977; Pfeffer and Salancik, 1978; Hardy, 1994). Similarly, this study shows that power is not always dependent on hierarchy. In this study, it was shown that even though an individual has a higher position (examples in this case are: between Counsellor and Deans; between Deans and Heads of Departments), the individual may hold less power once the resources are devolved. This is consistent with Salancik and Pfeffer's (1974) and Pfeffer and Leong's (1977) study that revealed similar findings. Their studies found that sub-units of the institutions have power in organisational activities which is derived from their ability to obtain resources.

Departmental power in the Ajar and Didik universities is found to be highly correlated with the department's ability to obtain outside grants and contracts with prestige national institutions, open new profit program study, etc. Even the departments could

earn much more money than the universities could earn. A top officer in a department in Ajar University gives his opinion about this matter as follows:

"We will only obey the university if it indeed helps us to supply the funds for our daily activities. Meanwhile, all this time we have given some of our income to the university. So, it appears that the university acts as a "tax officer" who is eager to withhold our money."

One of middle managers in Didik University supported his counterpart's opinion on the inability of the university to unify its faculties by stating as follows:

"How we can control and unify them in this university if the money is received by the administration centre come from them? Everything therefore relies upon money. If we are able to provide them with a sufficient amount of money, I am sure they will observe all policies we make."

These results on resources are consistent with Salancik and Pfeffer's (1974) findings that resources earned by departments from outside grants and contracts are very important for the organisation. This is also consistent with Pfeffer and Leong's (1977) findings that the ability of agencies in the United Fund to threaten withdrawal from the Fund is determined by their ability to raise funds on their own outside the Fund.

The authorities of Ajar and Didik Universities are under constant pressure since the deregulation to search for external sources of finance in order to reduce the power of the individual University departments. This is because these departments have more power over the university through the funds they have. Therefore, for example, aware with this reality, since university autonomy, the authorities of Didik University establish a commission to take charge of fund support mobilisation in order for the university to reach the goals of autonomy and to have power over the departments. This reality also has influenced the way in which Rectors of the studied universities are appointed. The Rector, as the senior manager, is expected to have an ability to mobilise funds from outside the organisation. In summary, the power over resources (knowledge, money,

and credibility) has been exercised by departments to influence decision outcomes (see also Hardy, 1996). This power gives the departments more power over the universities.

11.4.3.2. Historical Backgrounds of the Universities

Another source of power is the historical background of the establishment of the universities. The two cases studied in this thesis reveal that the power of the faculties and of the departments also emanates from the historical background of the universities that have been established as a collaboration of many faculties united into one single university.. This finding is supported by Eisendhardt (1988), who argues that organisations are ‘imprinted’ at their birth and their practices continue over time to become the standard way or traditions of doing things in the organisations. Eisendhardt (1988) and Oliver (1992) further argue that the force of habits, traditions and history may also make the organisational members highly resistant to change.

As can be seen in Chapter Eight, the two studied universities have similar historical backgrounds. Both Ajar University and Didik University were formed as a collaboration of many pre-existing faculties in different provinces united into one single university. Hence, faculties and departments in the universities run independently and there is no synergy between them to reach a common goal, vision, and mission. As a result, it appears to be more of a multiversity than a university. Accordingly, differences have emerged in the management systems applied in the faculties of the universities. For this reason a manager stated:

“Multiversity in the university makes it difficult for the institution to change its commitment into BHMN. It has rendered the university as the administration centre that manages the faculties, especially in administration, finance, or financing inter-faculty cross-subsidies.”

11.4.3.3. Knowledge

Furthermore, in these universities, power accrued to the departments because the departments as the lowest units in the universities possessed the knowledge of the area being taught in the departments. As has been confirmed by one interviewee:

"The departments have more knowledge in order to allocate the budget and to produce curriculum. They know what things they need to run the day-to-day activities and the knowledge what they should teach to their students."

The use of professional resources as a base of power has been recognised by Baldrige (1971) in his research about power and conflict in New York University. He argues that professionals/actors in the university could influence decision-making because they have knowledge that other actors lack and other actors allow this influence because they believe that the powerful actors have information that the other actors lack. Pfeffer and Salancik (1974) also revealed similar findings in their study.

11.4.3.4. National Prestige

Another source of power comes from the individuals in the departments who have gained national prestige for their contribution to the education environment. Pfeffer and Moore (1980) argue that national prestige and research reputation is another possible source of power for an individual or institution in the higher education environment. This case study of Ajar and Didik universities supports this argument. From the interviews, this study found that a source of power of individuals or departments in the universities also emanates from the reputation and national prestige of the individuals or departments. Since these two universities are regarded as the finest and largest universities in Indonesia, many of individuals in the departments are high-ranking officers in the Indonesian government or politics such as: ministers, ex-ministers, expert staff of the Indonesian President, right hand staff of the President, and those holding high positions in government and political parties. These people did not agree with the

university opinion that all the managers should be appointed by the universities leaders, since such an approach is against democratic principle. The section 11.3. on 'normative' influences explains more about this principle. Leaders in the universities do not have the ability to go against certain individuals in order to control the academic departments because of the political connections that the individuals have. A lower level manager in Didik University commented on this by giving an example of his faculty:

"It will be difficult for the leaders in this university or also the new council to influence the individuals in academic departments. For example, I don't think the university leaders have a will to face (name of the person has been deleted) who has been a minister for three times or also face (name of the person has been deleted) who is one of the Indonesian President's trust mans. The leaders or the council will be reluctant to face these people."

The power that emanates from the ability of the individual to maintain his or her political connections has also been found to exist by Hoque and Hopper (1994). Their study found that the managers in the state-owned companies failed to take disciplinary action against the leader of the trade union and his associates because of his strong links with the president of the country and the relevant minister.

11.4.3.5. National and Organisational Cultures

This case study found that a source of power for some actors in the universities also stems from the acceptance of some national and organisational cultures. This study identifies that the power of an individual in an organisation can also be obtained from his or her seniority. This is related to the acceptance of the Indonesian culture that have been discussed in the previous section. Interviewees commented that the system of governance and accountability at the universities is such that each university cannot be viewed as a whole, but rather as a collection of multiple faculties where each faculty has the authority to manage itself. The comments of the interviewees are based on the fact that there are no additional regulations from the government or MWA concerning

selection guidelines for the Dean of Faculty, or concerning the role of seniority, which is still deep-rooted in the two universities. The Rectors of the Universities are incapable of making any changes, though, since they cannot confront the resistance to seniority in faculties without a legal basis. This can be interpreted in the context of Indonesian cultural values, where age and position are sometimes seen as a basis of power (Rademakers, 1998; Dean, 2001). Indonesian people always follow the guidance given by Indonesian culture and Islamic teaching to always respect older people (Dean, 2001). Eisenhardt (1988) explains this issue by saying that a lack of conformity to change norms may arise because the structures and processes of organisations are sometimes tied to strong traditions that are deeply rooted in their formation and development. Some scholars (such as: Young et al., 2000; Collier, 2001) add that the traditions of these organisations can be a major source of inertia when organisations are confronted with external pressures to change their behaviour.

However, the issuance of Article 45 and 46 of Didik University's Organisation Rules by the MWA (the representative council for the university's stakeholders, which manages the selection process for Deans) has enabled the Rector in Didik University to change the selection system in accordance with the university's new paradigm. In contrast, Ajar University has not applied this new system of the appointment of Deans since the MWA of the university has not agreed with the bill of University Organisation Rules.

This finding is consistent with the views of Fligstein (1996) and D'Aunno et al. (2000) that organisational change is more likely occur if it is supported by an organisation's owners and/or board members, who have the authority and power to make substantial changes in an organisation's template. In the case of Didik University, the university's owners are the members of the MWA. This finding is also consistent with the view that

organisational change only occurs where there is political support for the change (Hardy, 1991).

Although external parties such as government bodies provided the pressures for change at Didik and Ajar universities, the initiation of change was made at the senior management level. The senior managers were able to use their power to redefine the attitudes and perceptions of staff. In accordance with national culture in Indonesia, leaders are such an important figure in the bringing of change to an organisation.

However, this situation puts the lower managers in a difficult situation since in the studied universities – and indeed, most state universities – every top officer also holds a secondary position. For example, the Head of a Major, Dean, Deputy Dean, Rector and Deputy Rector also undertake teaching, practising and research. As a result, these top officers have little time to do their job as a managerial top officer, which is required to improve the quality of daily activities in the university. One of the bureau heads stated that this situation has indeed had effects because the discussion of an agenda cannot be carried out without the senior staff. The power of leaders in this particular university also comes from the acceptance of certain values, traditions and cultures by all organisational members. More explanation about the cultures can be found in the section on normative factors.

This study found that power may result in resistance and conflict between managers in the universities. This finding is consistent with the definition of power that has been provided by Pfeffer (1992). This finding is also consistent with the conclusion reached by Collier (2001) that power may be a negative influence where it causes conflict where interests do not coincide. However, resistance in the universities is not corporate

conflict; on the contrary, the conflicts in the universities were minimised due to the impact and acceptance of the Indonesian culture. More explanations of the influence of national culture in the two universities can be found in section 11.3. on normative isomorphism.

11.4.3.6. Employees' Status

The final source of power that has been discovered in this study is the status of the universities' employees. This study has found that the poor industrial relations within the universities are caused by the fact that university employees are civil servants, over which the universities have no disciplinary powers. Further, as can be seen in Chapters Nine and Ten, the universities' managers do not have the ability to reward or discipline their subordinates, who, as civil servants, are only responsible to the government. This finding is similar to that of Hoque and Hopper's (1994) research, in which the managers of a mill were unable to exert discipline over their workforce of trade union officers without first seeking permission from headquarters.

Because of their civil servant status (PNS), it is almost impossible for the related universities to dismiss a lecturer or an employee. As has been discussed in previous chapters, civil servants are regulated by Law No.43/1999 on civil servants, Government Regulation No.77/1977 on the Regulation of Remuneration for Civil Servants, Government Regulation No.32/1979 on dismissal of civil servants. The effect of these Regulations and Decrees is that there is a long bureaucratic process which must be followed in order to punish a civil servant. The systematic application of sanctions for the employees has been described by some interviewees as follows:

"As civil servants, there is a procedure in applying the sanction; first by giving them a rebuke, then a warning, until finally reporting to the Minister. So as to avoid the involvement of a lengthy bureaucratic line through the Minister's involvement, based on experience, it is usually the

Rectorate that applies social sanctions such as reprimands. This is initiated from the Rectorate itself or from the department from where the employee originates. This method turns out to be quite effective. Usually, they feel embarrassed and some of them voluntarily resign. In contrast, for an employee involved in criminal act, the settlement is conducted through legal processes."

One of Deputy Deans of Ajar University supported the above description and added:

"It's been so tough to dismiss or cut or even to stop the salary of a civil servant (PNS) since it's connected with very lengthy bureaucracy. Even for a fourth-rank employee we ought to get the President's permission. However, supposing we found any violation by an employee or lecturer, and the faculty warned them and reduced the incentive income in the form of money that the faculty gives each month. For non-civil servants (PNS) a top officer can take action against them directly by firing the related individual. In supervision, it's easier to watch the non-civil servant because they are legally bound by a contract as an employee."

Hence, until now there have not been many changes to employee performance that relate to the punishment of them in the universities, as explained by a manager from Ajar University:

"It would be so tough to punish them as long as the majority are civil servants. It takes such a long time as well as exhaustive red tape."

In addition, a Director in Didik University responded to the treatment of their employees as follows:

"Since our organisation and our employee status is civil servant (PNS), we can't give rewards and punishments as we should be able to. As long as they don't do something silly, they don't have to be afraid of getting dismissed though their ordinary performance."

This study also found that the existing laws and regulations for civil servants do not recognise the award of bonuses to civil servants. The laws and regulations only manage the salary of civil servants.⁷¹ The government has not changed the laws and regulations; accordingly, Ajar and Didik universities, who employ mostly civil servants, must obey the government regulations. As a result, it is almost impossible for the universities to

⁷¹ See Government Regulation No. 77/1977 on the Regulation of Remuneration for Civil Servants, Law No. 43/1999 on civil servants (Civil Service Law), and Government Regulation No.32/1979

change their performance evaluation systems, including reward and punishment, especially when there is no support from the government as a regulator body. This finding is similar to that of Hoque and Hopper (1994), who found that the state owned companies studied did not have bonuses for employees, and that little action was taken against any employees who failed to achieve set targets because compensation and punishment was decided by the government.

As a result, there is little motivation for university employees to develop their skills. Further, the managers in the universities face a problem with the capabilities of their subordinates, as has been stated by one of managers in Didik University:

“Of 30 persons working in my office, only less than 20% can do the work. If the 20% have the skill required to finish the work assigned to them and the remaining 80% improve their skills, I am sure the working performance of my directorate would improve”.

As government units, organisational power relations in the universities are linked to government laws and regulations. These laws and regulations have resulted in a lack of managerial autonomy and the inability of managers to respond to problems relating to their subordinates (such as rewards and sanctions). Fieldwork has revealed that the managers in Didik and Ajar universities use social or informal control mechanism to cope with the complex and varied situations confronting them that have been discussed above (such as the continued use of outdated laws and regulations). From the findings discussed in previous chapters, the managers in the universities believe that in the present environment, informal controls have been substituted for formal controls, since the informal controls are more effective than the formal ones. A similar finding also has been made by Hoque and Hopper (1994) that the studied managers have to rely on informal and social controls because of the complex and turbulent situations in the

company's environment. These findings have also been supported by Hopper and Berry (1983) and Thomas (1983).

The discussion above provides evidence to support the argument that the uses of MCS in the universities are shaped by the interplay between institutional forces (e.g. government laws and regulations) and intra-organisational power relations (see proposition 5b, p.156). To conclude this discussion, figure 11.7. summarises the inter-relationship between regulation, as institutional isomorphism, and power in the universities decision to use informal control.

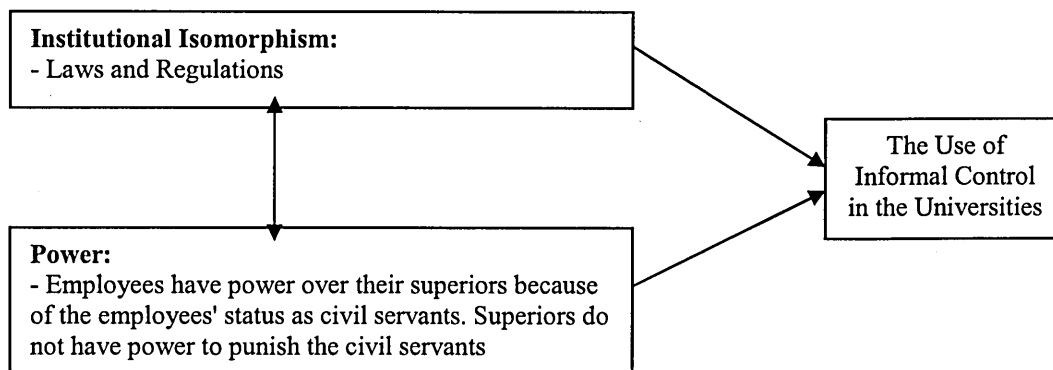


Figure 11.7 : Inter-relationship between Regulation as Institutional Isomorphism and Power in the Universities decision to use Informal Control

In addition, fieldwork has revealed that the two universities faced serious financial problems that made them unable to give satisfactory salaries to their employees. Hence, when the universities proposed changing the status of employees from civil servants to university employees, most of the employees interviewed stated that they would only accept the change in status if their salaries also changed. This change in employee status would result in the universities having more control over the employees.

As discussed above, the management of the universities could not reduce the number of civil servants in the universities due to their status as government employees whose dismissal process involves lengthy bureaucracy and regulation. Hence, to overcome this

problem the universities will not accept new civil servants as employees. This stance is supported by government regulation. As has been discussed in the previous chapter, in order for the universities to achieve a complete change in the status of their employees, the universities will have to wait for all the civil servants in the universities to retire. A projection of the change of employee status in the universities is illustrated in the Figure 11.8. below.

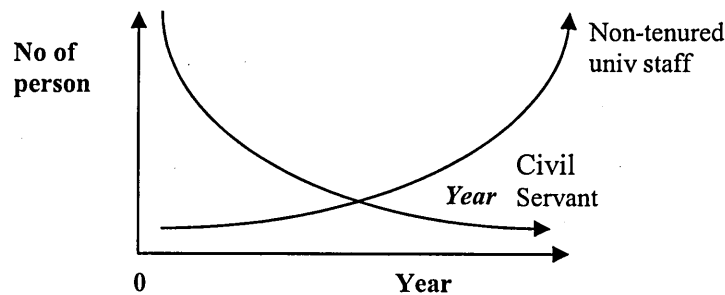


Figure 11.8: Projection of employees of the universities in the future

11.4.4. The Power of the Universities

As has been discussed in both Chapter Four of this study and in the previous section, institutional theorist (such as: DiMaggio and Powell, 1983; Oliver, 1991) assert that there is an inter-relationship between an organisation and its environment. This study provides evidence in support of this assertion. For example, figure 11.9. shows the inter-relationship between the studied universities and the government.

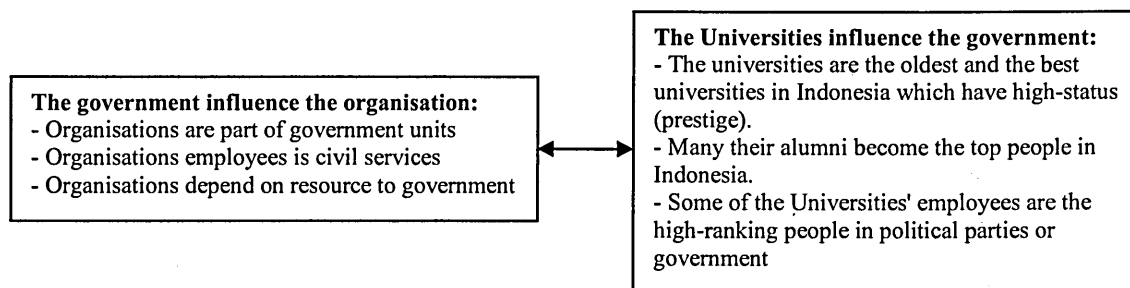


Figure 11.9: Government and organisation relation

As shown in Figure 11.9. above, the studied universities are able to negotiate with the government in the introduction of regulations. Leaders of Ajar and Didik universities

with BHMN status, leaders of the other public universities and government representatives take part in routine meetings to discuss the issues concerning the implementation of reforms in public higher education institutions. When the autonomous universities held these meetings, they decided on various matters relating to their own situation; for instance, laws and regulations, and finance (including reporting system, accountancy, and finance management). These meetings can be regarded as the cause of the similarities in management implementation in the autonomous universities. At one of the meetings, several top officers in the universities committed themselves to sharing information and experiences periodically, in writing, on finance, auditing, employment, management and academic matters. Regarding the co-operation of the four universities that have been granted autonomy, a senior manager said:

"The universities that have been granted autonomy are cooperating and sharing information with each other to solve various problems. For those problem that are formal, once a month all of the universities that have been granted autonomy conduct a meeting with the Directorate General of Higher Learning (DIKTI) to discuss various matters related to the implementation of the universities' activities in facing this change of status."

This statement is consistent with the Indonesian culture, that Indonesian people prefer deliberation or face to face encounters (*musyawarah*) in settling a problem. More explanation about cultural issues will be provided in the next section about normative isomorphism.

These meetings have resulted in a number of positive outcomes for the future of higher education reforms, such as a Bill of Laws for Universities on the State-Owned Legal Board Programme. In addition, as has been explained in Chapter Ten, the meetings lead to a decision to use the double entry system of accounting in the autonomous universities. Another example which demonstrates the inter-relationship between the universities and government is the negotiations which took place between the

universities and the government in determining whether autonomy status should be granted to the universities. The universities used case studies of autonomous universities in other countries as justification in their negotiations with the government to show that autonomous status would lead to better conditions in the Indonesian educational environment.

The power of Didik and Ajar universities emanates from the fact that the universities are two of the oldest and the best universities in Indonesia which have high-status (prestige) in the environment and therefore have power relative to the government agencies. This finding is consistent with the argument of Sherer and Lee (2002) that high-status (prestige) of an organisation is important in the initiation of change in the organisation's systems. Indeed, prestige gives an organisation the legitimacy to act as an initial and early adopter (Roger, 1983).

In summary, similar to Dacin et al. (2002), this study found that organisations or individuals have the ability to influence the regulatory and normative environments. So, beside the external constituencies, this study asserts that organisations or managers can influence the process of institutionalisation through interactions with the institutional environment (Brignall and Modell, 2000, p.288).

11.5. The Interplay between Institutional Isomorphism and Competitive Forces in facilitating Changes in Management Control Systems

A second shortcoming of institutional theory identified in Chapter Four of this thesis is the interplay between institutional and competitive forces. As has been argued in Chapter four, market forces help explain managerial change in an organisation. Sherer and Lee (2002) argue that competitive pressures drive organisations to be different and without competitive forces, there is no reason for an organisation to change. This

subsection examines how market pressure influences the studied universities to change their existing systems.

The world market has created global competition for higher learning institutions. Higher learning institutions are not only faced with the implications of this global competition, but also with the graduates of the higher learning institutions who also have to compete strongly: they have to grab any available employment opportunity, as their competitors are not only from their own country but also from the international circle. Therefore, to face this issue, an educational institution has to show its superiority.

In this case study, Chapter Seven concluded that the two universities face local and international competition. In terms of international competition, in the year 2000, of the 78 universities in Asia, the universities both ranked below 60th position. To comment about this competition, a manager of Ajar University said:

"If we wish to chase those who surpass us in ASEAN, even in Asia, there's no choice for university but to produce qualified graduates and gain the recognition of Asian society."

One of the Deputy Rectors of Ajar University believes that a good system results in improved quality in the university. He also added that a number of PTN in Indonesia were lower placed in the rankings of Asian-Pacific universities. He hopes that the altered system will improve the ranking of Ajar University. The other managers in the two studied universities also agreed with him that with more freedom in their operations in comparison to the past, the universities are expected to be more internationally competitive in chasing their international counterparts in Asia or other parts of the world (see also Yamamoto, 2004).

In terms of local competition, the universities face two kinds of competition: (i) competition from the other local and overseas universities; and (ii) competition from the graduates produced by other local and overseas universities. The process of globalisation, economic liberalisation and the introduction of new laws and regulations has reduced the role of the state. In Indonesia, this reduced role is not only evident in economics and politics, but also touches social sectors such as education, and especially higher education.

The ideas of globalisation and liberalisation have been established and operating in Indonesia since the 1970s (Kompas, 29/04/02, p.33). The free market phenomenon and the policy of privatisation of the government's various assets has affected the policies of autonomous universities by reducing the subsidies for public universities and encouraging the search for independent funds through the many government funding programmes. Furthermore, the universities are faced with open markets brought about by government reforms to regulations. The Indonesian government introduced competition into the sector by introducing a new regulation (Government Regulation No.61/1999 on reforms in Public Universities) that reduced government funding for the universities and gave more freedom to universities to find other sources of income. The reduced funding from the government provides an explanation as to why the universities increased the students' tuition fees. Indeed, the reduced funding gave legitimised the universities decisions to increase the tuition fees.

In addition, competition at a local level is getting tougher since there is also the impact of political institutions (the state, in this case) as regulators. Government laws and regulations contribute to the introduction of competitiveness in local markets in the Indonesian higher education sector. The IMF, as one of major donor institution for the

Indonesian government, has forced the Indonesian government to introduce a competitive market in higher education area through the introduction of the laws and regulations. As an example, Law No.20/2003 about national education is directed to such competition among public universities that allowed foreign institutions to establish branches in Indonesia, and stipulates that:

“Overseas universities and/or other institutions may establish new universities in Indonesia through a joint venture with Indonesian partners by following the educational system as well as requirements and procedures for each establishment applicable for Indonesian Higher Learning”

This stipulation has also been added in Chapter XII Government Regulation No.60/1999 over financing, article 114 verses (1), which states that “University financing can be obtained from government resources, society, and foreign parties”. The rules imply that any foreign institution is allowed to conduct higher education in Indonesia, and encourage universities in Indonesia to prepare themselves to compete against such foreign institutions.

The Minister of National Education, Abdul Malik Fadjar (Kompas, 19th April 2002), said that it is difficult to reject any foreign education institution wishing to enter Indonesia. Moreover, this issue is related to one of the mandates of the National Development Programme (Propenas) in educational affairs, which states that education ought to practise democratisation, decentralisation, and also educational diversity for all Indonesian people. This reform of laws reduced the barriers to entry making the new higher educations in Indonesia (especially the ones with links with overseas institutions) to challenge the more established ones.⁷²

⁷² These universities include: Universitas Pelita Harapan (UPH), the Swiss German University, Monash College at Jakarta (MCJ), and the Gandhi Institute of Business and Technology (GIBT).

In summary, the reform in Law No.20/2003 and Government Regulation No.60/1999 increased the level of competition that organisations face in the local market (see also Fligstein, 1996). The increase in competition in the Indonesian environment motivates the universities to consider changing their existing systems. The discussion in this section also supports the opinion of D'Aunno et al. (2000) that pro-competition regulations will promote change in organisations. This study found that regulatory policies promote changes in organisations by increasing market competition (see also Dobbin and Dowd, 1997). As a result of stronger competition in the market, the universities were motivated to consider changing their existing systems. Government induced competition meant that the universities required effective management systems capable of monitoring and matching their operating function with the external environment.

From the explanation above, this study also provides evidence that there is an inter-relationship between regulatory policies and market forces. The regulatory policies promote the changes in the organisations by increasing market competition. This finding has been supported by Dobbin and Dowd (1997) who also made a similar observation. The above argument supports proposition 6b that the uses of MCS are shaped by the interplay between institutional forces (e.g. government regulations and policies) and the level of competition that the organisations face (see p.158). Figure 11.10. below shows the relationship between government laws and regulations and the competitive forces in Indonesia that promote MCS changes. The figure also identifies the role of government laws and regulation in promoting new MCS .

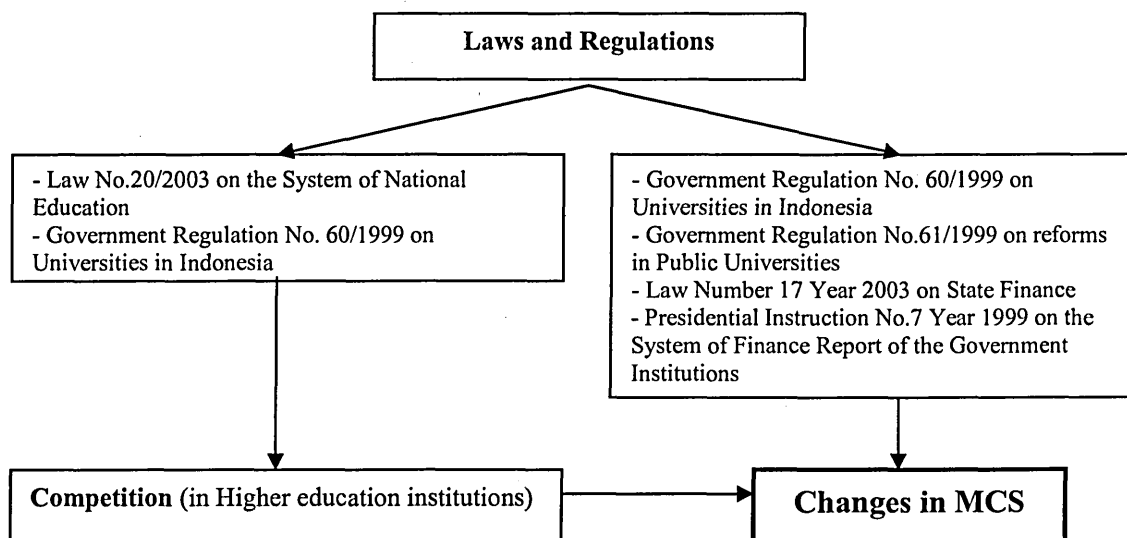


Figure 11.10 : Relationship of Regulation, Competition and MCS Change

In addition, globalisation has also encouraged open competition among Indonesian workers and expatriates. Indonesian industries continue to develop and expand, and the domestic job market is becoming more and more competitive. It is no secret that in Indonesia, university graduate who have studied at overseas universities or universities that use an international standard curriculum are perceived to be more marketable and have stronger bargaining power in the job market than graduates of national universities. As a result, the number of students from Indonesia studying in other countries has increased year to year. These conditions are factors affecting the changes to university policy. This finding has been also supported by many interviewees. As one of the interviewees stated:

"Universities in Indonesia must improve the quality of their education so the result is high qualified graduates that are expected to have high academic qualifications, enabling them successfully to enter the job market. This is connected to more open opportunities for expatriates to work in Indonesia. All this time, Indonesian graduates always loss when compete with the overseas expatriates."

In summary there are a number of ways in which competitive forces can influence the universities' decisions to change their existing systems. Table 11.11. below summarises the three key factors.

- | |
|---|
| <ul style="list-style-type: none">- Competition in International environment- The Indonesian Government reduce its funding to public sectors including education- The Indonesian Government open the sector market (Laws and Regulations reforms) / local competition |
|---|

Table 11.11: Competitive forces that influence the change of Universities existing systems

The findings of the fieldwork in the previous chapter have demonstrated that market forces in the Indonesian environment have influenced the two universities. This study reveals that the market forces lead the universities to change their existing systems such as the universities' vision and missions, budgeting systems, and Rector appointment procedures. The first existing system identified in this study is the universities' mission. The influence of the competitive forces, especially in the job market, has affected the two universities' missions. For example: Ajar University's mission is *to provide graduate and postgraduate education of an international standard*; while Didik University's mission is *to produce highly qualified graduates, who are able to compete in the global market and meet its demands*.

The reality of the low ranking of the universities compared with the other universities in Asia (see Chapter Seven for more explanation) brought about the willingness of the universities' academics to improve the quality of the universities in order to catch up to the other Asian universities. This has been stated in the universities' new missions after the reform, which are: to become an international reputable research university that oriented to the interest of the state (Ajar University's vision) and to become an autonomous, modern research university, and to gain an internationally reputable academic standard (Didik University's vision).

The second existing system that has been identified to be changed is the universities' budgeting systems. As part of the influence of competitive pressures and government

policies, new financial reporting and budgeting systems have also been emphasised as a critical tool for making organisations more effective in the competitive environment. However, the previous section has argued that the managers in the Ajar and Didik universities were confronted with both high market competition and strong political and industrial relations turbulence (See Hoque and Hopper, 1997). In the two universities, there are two conflicting sets of demands upon the managers between legitimating and operational purposes (such as the use of resources effectively or efficiently). The universities applied the new budgeting system and the vision, mission, and strategic plans in order to provide an image of the university to external constituents (such as community and government) for their continued support, rather than for operational purposes to face a competitive market. This conflict between legitimating and operational purposes occurred as a result of the lack of coordination between the parties in the universities in preparing the new approach. Indeed, there is no synergy between university departments in reaching a common goal, vision, or mission. This lack of synergy has occurred in the universities since the faculties deem themselves to be small kingdoms and have freedom for them to govern themselves. This finding is consistent with the conclusions of Hoque and Hopper (1997) that institutional and market forces may be in conflict under conditions of high political and industrial relations turbulence.

The third existing system which underwent change in the universities was the procedure used to appoint the Rector. The findings suggest that competitiveness and the reduction of government funding lead the MWA to appoint a Rector that has the entrepreneurial skills necessary to face a tighter competitive environment and meet costs. The universities must be more creative in finding more income opportunities. The findings in this study are also consistent with the findings of Hoque and Hopper (1997); Brignall and Modell (2000); Hussain and Hoque (2002); Modell (2002) that greater competition

plays an important role in changing an organisations' systems. This finding is also supported by Powell's (1991) argument that competition and politics is supplement each other.

The discussion above shows how competitive forces influence the MCS in the two studied universities. This is consistent with arguments developed in proposition 6a that the competitive environment of an organisation influences its practices including the MCS (see p.158).

11.6. Chapter Summary

The discussion in this chapter supports the view from other researches that the change of an organisation's system depends on institutional forces (e.g., the government and its agencies; laws and regulations; and national and organisational cultures). This chapter found that regulatory elements, especially government policies, contribute to either promote or inhibit organisational change (see also study from Wade et al., 1998). The discussion provided in this chapter lend support for proposition 1 that changes in the universities' status from government control to autonomous would lead to changes in MCS (see p.150).

To conclude this chapter, this study argues that university reform has been an integral part of the radical change in the Indonesian environment, which has included decentralisation, deregulation, democracy, and market economy. The analysis of data revealed a significant relationship between these environmental factors and the decision to implement a new MCS. The analysis highlights the fact that the environment in which the universities operated has changed in recent years, and that many of these changes have inspired the government to issue new regulations and authoritative advice.

This environmental change has in turn affected the universities' strategy, structure and process. In summary, reforms in the two studied universities' activities adopted an "outside-in" approach (Ma, 2003) since the universities were part of a government unit that did not have the independence to choose the best practice for them.

From the discussion above, this study has found that the two universities have similar activities and processes of changes. These similarities have occurred since the autonomous public universities, together with their fellow PTNs that will be granted autonomy status, hold frequent, routine meetings to discuss activity implementation after autonomy. When the universities and PTNs hold these meetings, they decide on various matters relating to their own situation; for instance, law and regulation, finance (including reporting system, accountancy, and finance management), and higher education quality assurance. These meetings can be regarded as the cause of the similarities in management implementation in the autonomous universities. At the meetings, several top officers in the universities committed themselves to sharing information and experiences periodically, in writing, on finance, auditing, employment, management and academic matters. Regarding the co-operation of the universities that have been granted autonomy, a correspondent said:

"The universities that have been granted autonomy and the other state owned universities are cooperating and sharing information with each other to solve various problems. For those problem that are formal, at least once a month all of the universities conduct a meeting with the Directorate General of Higher Learning (DIKTI) to discuss various matters related to the implementation of the universities' activities in facing this change of status."

The similarity of the activities between the organisations has also been influenced by government agencies, public interest groups, laws and government regulations, which many scholars, such as Oliver (1997); Granlund and Lukka (1998), have argued are a factor that limit diversity across organisations in the same industry. The argument in this

thesis is also consistent with the arguments of DiMaggio and Powell (1983, 1991); Scott (1987); Oliver (1997) that organisations which operate in similar environments or industries experience comparable demands over what is generally regarded as being 'acceptable' behaviour – and, consequently, will have similar structures and activities.

The results of this chapter support the conclusions of other researchers that the change of an organisation's system depends on institutional forces (government, including the agencies; laws and regulations; and national and organisational cultures), political power of individuals or/and units, and market forces (such as competition with other international or national universities; and funding scarcities).⁷³

This study argues that the units within the organisation that have power play an important role in the institutional environment and have the potential to influence managerial reform in an organisation (Pfeffer, 1992; Abernathy and Chua, 1996; Vaivio, 1999). As has been argued by Meyer and Rowan (1977); and D'Aunno et al. (2000), institutional actors have multiple and often inconsistent interests. Accordingly, the study of Ajar and Didik universities has revealed contradictory views of the importance of politics and power, as well as laws and regulations in the organisations' MCS changes. This study has highlighted that the universities experienced difficulties in changing their existing systems when faced with power from their academic departments and employees (Covaleski and Dirsmith, 1988a; Burns, 2000). However, power was also an important factor in facilitating accounting change (Burns, 2000; Collier, 2001). In addition, regulatory elements, especially government policies, either promote or inhibit the universities MCS changes. This finding has supported the

⁷³ Oliver (1992); Davis et al. (1994); Kraatz and Zajac (1996); Brignall and Modell (2000); D'aunno et al. (2000); Hussain and Hoque (2002) studies have emphasised the the interplay between market forces and institutional forces in causing changes in an organisation. Collier (2001) studies have emphasised the interplay between organisational power relations and institutional forces in causing changes in an organisation.

conclusions of other researchers that government policies produce contrary effects on the organisations' systems (see Wade et al., 1998).

This study also found that the national and organisational culture may either promote or impede the universities' MCS changes. For example, the paternalistic culture at Didik University has been an important factor in promoting the restructure of middle level management in administrative departments. However, the culture has failed to promote the restructure of lower level management in academic departments since the managers in the departments have successfully mobilised other national cultures/traditions and power to resist change. This finding supports Collier's (2001) argument that the success or failure of resistance depends on the relative strength of the culture and the concerns of management with the norms, values and beliefs inherent in that culture (p.482). Hence, this discussion further argues that the systems in the organisations are more likely to change when the changes themselves do not violate the organisations' cultural values, and also do not threaten the power of the organisations' key actors. In other words, this study supports the argument that the power of individuals or units can be oppressive and constraining, but also has the potential to enable system changes in an organisation (see Giddens, 1976; Scapens and Roberts, 1993; Collier, 2002). It will be difficult to change a system in an organisation if the change is inconsistent with the organisation's historical, cultural or political context (see also Oliver, 1997).

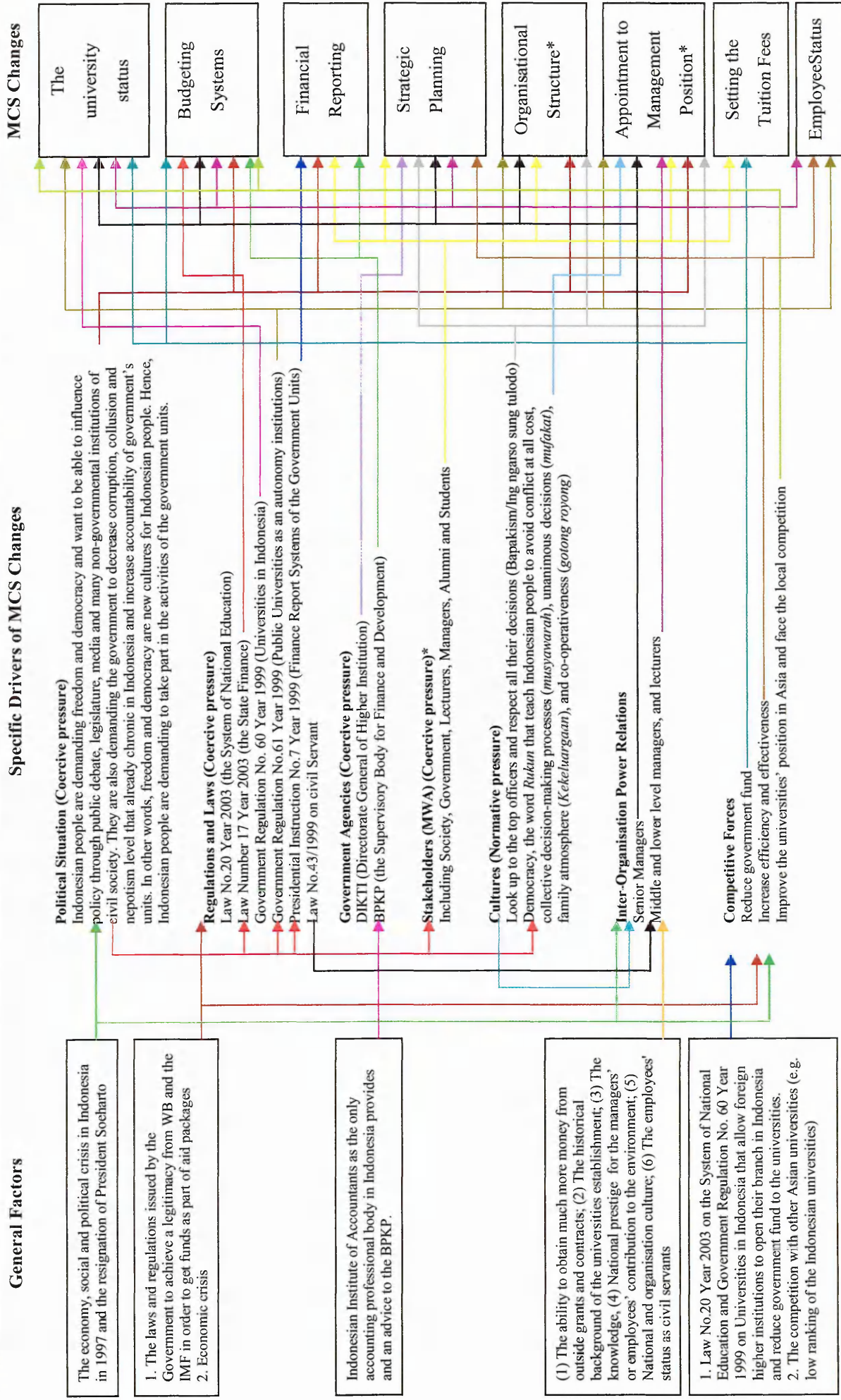
This study argues that in Ajar and Didik universities, there are two conflicting sets of demands upon the managers between legitimating and operational purposes (such as the use of resource as effectiveness or efficiency). The universities use the new budgeting system and the vision, mission, and planning statement to provide an image of the university to external constituents (such as community and government) for their

continued support rather than for operational purposes (such as the effective or efficient use of resources). This argument is reinforced by the fact that there is no coordination in budgeting between the various University departments.

In summary, the changes in many aspects of the two universities' formal structures, policies and control procedures have been influenced by the external and internal environments. This study recognises the interplay between institutional pressure, competitive pressures and power in understanding organisational change . In the two universities, the study found that there were often interrelated and multiple pressures for change (see also Deegan, 2002). Figure 11.12. below provides an overview of the salient findings of the thesis. It could be observed that institutional, competitive forces and intra-organisational power relations influence the changes in MCS change of the two studied universities.

After examining the interrelationship between institutional isomorphism, intra-organisational power and market forces and how the studied universities designed new systems to deal with the pressures, this thesis is continued in the final chapter which discusses the conclusion of this thesis.

Figure 11.12: MCS Changes in Ajar and Didik Universities



* Change in the organisational structure hasn't occurred in Ajar University because the MWA of the university is still in discussions to design a new organisational structure. Appointment of management positions (except Rector and Deputy rectors haven't occurred in Ajar University because the university hasn't have an Organisation Rule as a legal basis to adopt a new appointment approach.

CONCLUSION OF THE STUDY

12.1. Introduction

This is the final chapter of the thesis and provides the conclusions of the study. This chapter is divided into six sections as follows: the first section provides an introduction of the chapter, followed by a section on the summary of the major findings of the thesis. The third section discusses the contributions of the study to knowledge, while the fourth section discusses the strengths of the study. The fifth section identifies the limitations of the study, and the chapter ends with a section on recommendations for future research.

12.2. Summary of the Study

This study has examined the processes of Management Control Systems (MCS) change in two Indonesian higher education institutions in an attempt to obtain a better understanding of how the systems are designed and used and how they change over time. The analysis presented in this thesis has demonstrated that changes in the MCS in the universities were highly influenced by a number of institutional forces in the universities' environments. This study reinforced the findings of other researchers that social, political, economic, and institutional context governs the way management accounting control systems operate in organisations (Hopwood, 1987; Hoque and Hopper, 1994; Uddin and Hopper, 1998; Hoque and Alam, 1999). The evidence of the case study shows that organisational changes and the introduction of new management accounting systems can be understood in terms of the interplay between institutional isomorphism (coercive, mimetic, and normative), competitive/market forces, and intra-organisational power relations. Hence, this study argues that serious consideration

should be taken of institutional forces, competitive forces, and power relations issues where an organisation proposes to implement new approaches.

Coercive forces have been identified in the analysis in previous chapters to be particularly influential in the development of new systems in the universities. Coercive isomorphic pressure for the organisations comes from the government through its bodies, laws, and regulations. These regulations put pressure on the organisations to change their management control systems such as strategic planning, budgeting systems, financial reporting, setting of tuition fees, appointment of individuals to management positions, and also organisational structure. This government pressure occurs because a public university is treated as a government bureaucratic unit and has to comply with the regulations applicable to all government units. Essentially, the universities are forced to conform to laws and regulations in order to gain external legitimacy, especially from the government and the public. DIKTI, as a government body in the Indonesian higher education sector, and BPKP, as a supervisory body for finance and development for all government units, also forced the universities to apply new systems such as strategic planning and budgeting systems. There are a number of factors that allow the government to exert influence over the organisations to establish new practices, including the fact that the organisations are dependent upon the government for funding and for human resources

This study argues that culture, as one of normative explanatory factors in this study, is very powerful and able to explain many control practices at the Universities that are the results of individual and community cultural values (see Granlund and Lukka, 1998). Normative isomorphism (especially influence from national and organisational cultures) also has been identified to be influential in the decision to adopt new systems in the

universities (Granlund and Lukka, 1998). In order to analyse MCS in an Indonesian organisation, a researcher should consider the main characteristics of Indonesian culture which are: collective decision-making processes (*musyawarah*); unanimous decisions (*mufakat*); co-operation (*gotong royong*); respect of a leaders decisions (in Javanese, this is called *ing ngarso sing tulodo* or in Indonesian, this is called *Bapakism*); the avoidance of conflict at all cost (*Rukun*); and loyalty. The influence of Indonesian culture on the MCS change in the studied universities is clearly evident. For example, cultural influence can be seen in situations where the administrative managers do not have the ability to resist the implementation of new approaches because they are bound to accept *Bapakism*, where the managers must obey the decisions of leaders; (*Rukun*), where the managers are obliged to avoid conflict at all cost; and (*musyawarah*), where conflicts are resolved through deliberation and negotiation. Further examples of cultural influence within the universities include the fact that staff recruitment is based substantially on social relations; and appointment of managers occurs according to seniority. These findings are consistent with those reported by Ansari and Bell (1991).

This study also revealed that the complex and varied situations confronting the managers in the two studied universities (such as the continued use of old laws and regulations; and the acceptance of the national and organisational cultures) necessitate the use of informal controls in many areas, including performance evaluation and decisions for reward and punishment. The managers believe that in these environmental conditions, it is more effective to use informal controls than formal controls. This argument is supported by the findings of Hopper and Berry (1983) and Hoque and Hopper (1994) that managers tend to rely on informal and social controls when confronted with complex and turbulent situations in the organisation's environment.

This study further found that the role of professional bodies such as the Indonesian Accounting Association (IAI) is not direct. Rather, professional bodies act only as advisors of government agencies (e.g. BPKP) that influence the changes of the universities' MCS. The IAI, Indonesia's only accounting professional body, does not have enough political or resource power to influence the universities to follow its accounting standards. The accounting body only provides advice about upcoming public sector accounting issues to government agencies (i.e. Finance ministry, National Education ministry, and BPKP) to force the universities to take the accounting issues into consideration.

This study has provided limited analysis on mimetic isomorphism and has concentrated largely on coercive and normative isomorphism. However, the lack of attention given to mimetic isomorphism is not considered as a limitation of this study since previous literature has identified that it is possible for a study to draw on only one or two dimensions of isomorphism. For example, Mizruchi and Fein (1999) identified that over 75% of studies using the new institutional sociology (NIS) that were published in major American journals have focused on only one of the isomorphisms.

Furthermore, as identified in Chapter Four, some recent institutional and accounting studies have begun to study the role of power in institutional change (such as Covalevski and Dirsmith, 1988; Abernathy and Chua, 1996; Collier, 2001; Modell, 2002). Similarly, this thesis also studies the role of power to explain managerial change in the two studied universities. The findings in this thesis are also consistent with the argument presented in Collier (2001) that power relations between the internal agencies in the universities has the potential to facilitate management reforms in the universities (positive aspect of power) and also to enable the universities to adapt to their

environments (negative aspect of power). An example of a positive aspect of power is that the managers in the universities supported the use of a new activity based budgeting system since the existing systems of the universities were not perceived by managers to be rational models to face the new environment affecting the universities with BHMN status. In terms of negative aspects of power, this study has provided us with evidence that power from the lowest unit in the universities works fundamentally against organisational change. There was resistance from university employees, the lowest units in the university, to the new approach of appointing the head of department and program of study. However, this study also found that resistance does not always impede organisation change (Collier, 2001). For example, managers in the universities failed to resist a new policy about the appointment of certain positions. This lack of resistance occurred because the administrative managers occupy a relatively weak position. This weak position has been caused by the culture of paternalism or “*bapakism*” accepted by Indonesian society (Mulder, 1989) where it is very uncommon for a person with lower rank to question authority. In other words, all employees must obey decisions that come from the leader. This finding shows the interplay between institutional and power relations.

In addition, this thesis has shown that the interplay between institutional and competitive forces helps to explain managerial change in an organisation. This study shows that the deregulation of the higher education sector contributed to the introduction of competition in the Indonesian higher education sector. As a result of the influence of competitive pressures and government policies, new financial reporting and budgeting systems have been emphasised as critical tools for making organisations newly effective in the competitive environment. However, consistent with Hoque and Hopper (1997), this thesis suggests that institutional and market forces were in conflict

under conditions of high political and industrial relations turbulence in the environment of the studied universities. For example, the universities applied the new budgeting systems and strategic plans in order to provide an image of the university to external constituents (such as community and government) for their continued support, rather than for the operational purpose of facing a competitive market (such as the use of resource as effectiveness or efficiency). This conflict between institutional and market forces occurred because there was no coordination between the parties in the universities in preparing the new systems. Hence, this study reinforced the opinion of previous researchers (such as Meyer and Rowan, 1977; and DiMaggio and Powell, 1983) that the willingness of an organisation to conform with rules and requirements is based not only on achieving effectiveness and efficiency in a competitive market, but is also based on achieving legitimacy from external constituents in order to secure resources and also maintain survival capabilities.

12.3. Contributions to Knowledge

The thesis makes the following contributions to theory and practice. First, since this is the first major study to focus on deregulation and MCS in universities in the context of Indonesia, the results of this study will further develop our understanding of the nature and purposes of MCS in the studied organisations as a response to the conditions imposed by the new environment. Hence, this study will further bridge the gap between accounting theory and practice in the context of Indonesia. With in-depth research, the results of this study help to explain the role of management control systems within the context of Indonesia.

The thesis will also contribute to explaining how MCS change occurs in response to a university gaining autonomy. The thesis will contribute to the limited pool of knowledge existing on MCS in less developed countries (LDCs), especially Indonesia,

which has been a neglected area of accounting research (see Varma and Chand, 2002). Hence the thesis will be a pioneer in this area and provide an important step for other researchers to develop this topic further. Consequently, the study will contribute to any future research on the area, especially in Indonesia.

The third contribution of the thesis relates to the use of NIS. The analysis of the interplay between institutional, competitive isomorphism and organisational power will contribute to expanding institutional analysis. This thesis thus supplements previous studies that have used interplay between institutional and organisational power (such as Covalevski and Dirsmith, 1988; Abernathy and Chua, 1996; Collier, 2001, Modell, 2002) and interplay between institutional and competitive forces (Oliver, 1991; Fligstein, 1996; Kraatz and Zajac, 1996; Hoque and Hopper, 1997; D'Aunno et al., 2000; Gary et al., 2000; and Sherer and Lee, 2002).

This thesis suggests that NIS could be improved by studying the interplay between institutional, market forces and organisational power relations. The analysis of the interplay is found to be valuable in understanding change in Indonesian higher educational institutions and provides a useful conceptual tool for analysing and understanding change in management control systems in organisation. The interplay gives a more complete explanation of the organisational change and also offers an opportunity for institutional, market forces and organisational power to support and complement each other in building stronger explanations to the questions of how and why organisational change is able to occur in the universities. This study identifies that while NIS focuses more specifically on the pressures and constraints of the institutional environment (e.g. government agency, laws and regulations, professional bodies, social and culture), competitive analysis is used to provide an explanation for why an

organisation changes in the context of competitive market force. The analysis of power in this thesis has complemented the institutional and competitive analysis by providing explanations of the role of individual actors in an organisation in the process of change.

In terms of methodology, this research provides significant contributions to the use of case study and qualitative methodology in management control research. Such an approach would provide an in-depth understanding of the way MCS operates in organisations. Several researchers (Knight and Weigenstein, 1993; Modell, 1996; Abernethy and Brownell, 1999; Jazayeri and Hooper, 1999; Marginson, 1999; Brignall and Modell, 2000; Lind, 2001; Uddin and Hopper, 2001; Saravanamuthu and Tinker, 2003; Wickramasinghe and Hopper, 2005) have called for such a study. However, the majority of these studies have been focused on developed countries' environment. Hence, this study contributes to the use of case study as a research strategy in studying the MCS in developing countries context. In terms of methodology, this study further contributes to the use of multiple case designs in MCS research through the cross case analysis of the two universities.

The thesis will also contribute to future management accounting research and research in higher educational institutions, especially in Indonesia and in other less developed countries. The study is expected to be useful for the Indonesian public universities in decision and policy matters involved in higher educational sector reforms. The findings could also be used as a comparison to enable the management of the universities to develop effective control systems in the universities. The results of the study would provide understanding to the managers of the two universities of the realities faced by the universities, and will encourage the managers to develop the management systems.

Chapter 12: Conclusion
This would help the universities to design better management controls to support the new organisation form.

As identified at the beginning of this study, Indonesia is embarking on reforms in the higher education sector, designed to give greater autonomy for a number of public universities. The research gives an opportunity for government officers to learn from the experience of the two studied universities. Therefore, the research is expected to become one of the inputs and also a source of basic concepts in the establishment of policy to make related rules concerning higher education sector deregulation. Finally, this thesis has concluded that institutional elements can either promote or inhibit change in organisational systems. This is consistent with the opinion of D'Aunno et al., (2000).

12.4. Strengths of the Study

The strengths of the thesis are recognised in this section. The thesis has the following strengths. First, the use of the interplay between institutional, market forces, and power relations as a theoretical framework allows this study to obtain richer research findings and provides a useful framework to analyse and understand the complexities of accounting change.

The study has been designed to examine multiple cases with two universities researched. Using two universities in this study allows the researcher to investigate the subjects in depth to provide a fuller description and understanding. The multiple cases allow this study to use cross-case analysis and comparison, and to investigate a particular phenomenon in diverse settings (Darke et al., 1998). Comparative research may identify whether organisations have different management control activities to each other, or whether the organisations have different management control activities to each other through isomorphic processes (see Collier, 2001). The multiple cases used in this

study strengthen the results of the study by replicating the pattern matching, thus increasing confidence in the results of the research findings.

Finally, this thesis uses a significant number of resources such as formal and informal interviews with the universities' employees from various levels; large amounts of documentary evidence; and observation of the universities' situations. Data triangulation involving interviews, documents, and observation facilitated the validation and cross checking of the data collected for the analysis. In addition, the use of direct quotations and citations of interviews and documentary evidence in the findings and analysis chapters has strengthened the presentation of the study and increased the reliability and validity of the study.

13.5. Limitations of the Study

This section discusses the limitation of the study. The first limitation is that the study did not involve any interviews with government officers. Even though the author has made significant efforts to interview government officers to obtain a better understanding of the government's influences in the universities, these efforts were unsuccessful. However, this limitation has been mitigated through the use of government documentation from websites, government policy documents, and interviews of university managers which may be used to understand the government's influence.

A second limitation of this study is the obstacles encountered by the writer in conducting the fieldwork in the two studied universities. Many participants cancelled their interviews with the researcher or failed to turn up to the interviews on several occasions due to unexpected official meetings or other personal reasons. Some interviewees explained to the author that invitations to official meetings are often

received only several hours prior to the commencement of the meeting. Dean (2001) explains that patience is certainly required in the Indonesian environment, especially when engaging with corporate or government bureaucrats, because being late or failing to turn up at all is very common.

Furthermore, the fact that most of the correspondents hold at least two offices concurrently, even in different cities or islands, made it more difficult for the researcher to conduct the interviews. For example, there is a lecturer who is also concurrently acting as a consultant for the government, as a high officer in another private university and also as president of the board of commissioners of a state owned company. There is also a participant who is concurrently on the expert staff for both the President of the Republic of Indonesia and for one of the government Ministers. The holding of multiple positions results in the person concerned rarely being available at his/her office and having very little spare time.⁷⁴

The third limitation of this thesis is that the case study only focuses on two organisations. Accordingly, the findings in this thesis cannot be generalised to other organisations in the public sector including the higher education sector. However, from the outset, it was identified that generalisation was not a main concern of the thesis. A case study approach is adopted in this study because it is consistent with the aim of this research, to explore, describe and explain the reasons for the change of management control systems in the studied organisations.

⁷⁴ For example of this, of 2,226 lecturers in the Ajar university, the university local magazine in year 2003 has received data stating that as many as 2,180 lecturers work outside the University. 200 staff members participate in 16 political parties, either as chairman or legislative candidate. Another 200 also work as state officials, 80 of them assumed the office of leader of a private-run university (PTS) and another 1700 work there as associate lecturers.

Chapter Three

Finally, as has been identified in Chapters Two and Three, there is a lack of literature on research on management controls in public sector institutions in developing countries, especially in Indonesia. This has affected the results of the study. As a result, the literature review in this thesis is predominantly based on Western experiences. This lack of specific literature is a limitation because the review of literature from different environments is less likely to provide an appropriate comparison to analyse the case results of the thesis. Indeed, the literature reviewed in this thesis has been based on the different environmental conditions that may not be applicable within the context of Indonesia.

12.6. Directions for Future Research

This section identifies some areas of future research. First, this study argues that the reforms of higher education institutions results in universities becoming more corporate and acting in parallel with private companies. Hence, there is an opportunity to learn more about this issue by conducting a comparative study of an autonomous university and a private corporation using NIS. The autonomy status gives more freedom for the state-owned universities to manage their own activities. Hence, a comparative study between autonomous universities and private universities will give an opportunity for the universities to learn from each other. In addition, there is also an opportunity to study the impact of the design and operation of the new systems that have been applied in the universities (for example in terms of financial matters).

Second, although Chapter Three of this thesis identified that higher education reforms not only influenced the practice of a university's MCS but also a university's curriculum (see Ma, 2003), no study has been conducted to explore and explain the affects of deregulation on curriculum development. Hence, future research needs to investigate the extent to which deregulation has changed the universities' curriculum,

especially the accounting curriculum, within the context of Indonesia or other developing countries.

Third, from the outset of this thesis, it was identified that there are some countries such as the Czech Republic, Australia, China, Malaysia, Thailand, Cambodia, Hong Kong, Singapore, and Indonesia who have reformed their higher education institutions (Meek and Wood, 1998; Minxuan, 1998; Crebert, 2000; Svecova, 2000; Lee, 2001; Couturier, 2003; Ma, 2003). Based on this, there is an opportunity for undertaking a comparative study of management control systems between the higher education institutions in the countries to learn from each other.

Finally, there exists an opportunity for future studies to use the interplay between institutional, market forces, and intra-organisational power relationships that have been examined in this thesis to study the use of accounting in organisations in other sectors in other countries. In the case of the Indonesian environment, beside deregulation in the higher education sector, Indonesia is also experiencing deregulation in other public sectors. For example, there are many state owned companies (such as banks, telecommunications, water, etc) or other state institutions (such as hospitals) which are currently being privatised. Privatisation entails that these companies will change from government controlled companies to privately controlled companies, giving rise to an opportunity to investigate the extent to which their original management control systems have been changed using NIS.

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Appendix 1.1 : Published Journals Reviewed

Academy of Management Journal	Issues in Accounting Education
Academy of Management Review	International Studies of Management and Organisation
Accounting and Business Research	
Accounting and Finance	Journal of Accounting and Public Policy
Accounting, Auditing and Accountability Journal	Journal of Accounting Research
Accounting Education	Journal of African Business
Accounting Forum	Journal of Economic Perspectives
Accounting Horizons	Journal of Educational Administration
Accounting, Organisations and Society	Journal of Higher Education Policy and Management
Accounting Review	
Administrative Science Quarterly	Journal of International Accounting, Auditing and Taxation
American Journal of Sociology	
American Sociological Review	Journal of International Business Studies
Asian Review of Accounting	
BIES	Journal of Management
British Accounting Review	Journal of Management Accounting Research
British Journal of Management	Journal of Management Studies
Contemporary Accounting Research	Journal of Marketing
Critical Perspectives on Accounting	Managerial Auditing Journal
European Journal of Information Systems	Managerial Finance
Financial Accountability and Management	Management Accounting Research
Financial Management, CIMA	Organisational Dynamics
Health Care Manage Review	Organisation Science
Higher Education Policy	Organisation Studies
Human Relations	Public Administration Review
Info System Journal	Public Money and Management
Institutional Journal of Educational Development	Quarterly Journal of Economics
Information Technology and People	Research in Accounting in Emerging Economies
International Advances in Economic Research	Research in Third World Accounting
International Journal of Educational Management	Social Forces
International Journal Management Concepts and Philosophy	South African Journal of Business Management
International Journal of Public Sector Management	Strategic Management Journal
International Journal of Service Industry management	The Journal of American Academy of Business
	World Development

Appendix 2.1: Summary of Previous Accounting Research in LDCs

No	Description of Title	Issues / Aims	Findings and Comments
1.	O'Connor, Chow, and Wu (2004) The adoption of "Western" management accounting/ controls in China's state-owned enterprise during economic transition, AOS, V.29, p.349	Explores the influence on the adoption of "Western" management accounting control practices by China's SOEs. Used a survey instrument for data collection from 82 SOEs. Interviews were conducted with managers at four SOEs and two of their joint venture.	There is an increase use of range of Western Management accounting control in the SOEs. There are factors that influence the level of adoption such as increasingly competitive environment and also influence by institutional factors such as joint venture experience and stock exchange listing. This paper provides the questions asked to correspondents.
2.	Hoque, Z., and Hopper, T. (1994) Rationality, accounting and politics: a case study of management control in a Bangladesh jute mill, Management Accounting Research, Vol.5, pp. 5-30	How control systems operated at the level of practice and to explain why the systems of control worked in the ways they appeared to do.	Factors that influence MCS operated in the LDCs environment. (1)the organisation operated in competitive and regulated environments; it had little authority over its operational activities, and head office and the sponsoring ministry were prominent in organisational planning and control. (2)the accounting system in the mill was mainly a response to external legitimacy. (3)budgeting was not a dominant mode of control in the organisation since the budgeting system was created to comply with head office and state requirements. (4)the managers used a variety of informal/social control mechanism to cope with the complexity and uncertainty around the mill.
3.	Perera, M. H. B. (1989), Accounting in developing countries: a case for localised uniformity, British Accounting Review, Vol. 21	Examine the accounting environment of less developed countries in order to uniform the accounting practices in LDCs.	The need for an inward looking approach to accounting in developing countries arises mainly from two reasons. (1) the Anglo-American style of accounting practices may not be relevant in many developing countries. (2) they may not be capable of providing the accounting information needs of these countries in the most efficient manner.
4.	Ji, X. D. (2000) Evaluation of research on Chinese accounting issues, Managerial Finance, Vol.26, No.5, pp.41-62	This paper reviews the published research in English and investigates the different interpretations of Chinese accounting by scholars from China as well as overseas. This paper also assesses the value of such research for the development of international accounting	The development of accounting in China will be more close to international practice and that the development of accounting in China will be more close to international practice and that the changes for China will be fundamental and dramatic. Research into Chinese accounting will make these changes more understandable for western scholars.

5. Alam, M. (1997) Budgetary process in uncertain contexts: a study of state-owned enterprises in Bangladesh, *Management Accounting Research*, Vol.8, pp.147-167

The purpose of this paper is to explore how the budgetary process is used to manage technical and institutional environments. The study was carried out in two state-owned organizations in Bangladesh.
 6. Tsamenyi, Mills, and Taurangana (2002), A field study of the budgeting process and the perceived usefulness of the budget in organisations in a developing country – the case of Ghana, *Journal of African Business*, 3(2), p. 85

Reports on a field study undertaken to investigate the budgeting process in four large-scale organisations in Ghana. The perceived usefulness of the budget within these organisations was explored using data collected from questionnaires and interviews with forty-eight managers in four organisations.
 7. Uddin, S. and Hopper, T. (2001) A Bangladesh soap opera: privatisation, accounting, and regimes of control in a less developed country. *Accounting, Organizations & Society*, Vol. 26 Issue 7/8, p643-673;

This paper reports an intensive case study of a soap manufacturing company in Bangladesh that was nationalised upon Bangladesh's independence in 1971 and privatised in 1993. Theoretically it is informed by Burawoy's contributions to labour process theory, especially how the consent of labour is manufactured through internal states, internal labour markets and games, and how regimes of control in less developed ex-colonial countries are transformed by state and production politics. How the role of accounting systems may shape and be shaped by these processes is traced. Nationalisation brought state attempts to manufacture consent by the methods described in Burawoy's depiction of hegemonic regimes.
 8. Ansari, S. L., and Bell, J. (1991) Symbolism, collectivism and rationality in organisational control, *Accounting Auditing & Accountability*, Vol.4, No.2, pp.4-27

A 22 years longitudinal field study in International Foods, a holding corporation for a group of companies in Pakistan. It focuses on the influence of societal culture on the development of accounting control practices in the organisation. The issues are: How do organisations initiate accounting and control systems? How do such systems evolve? What roles do they play in a crisis? How does organisational action become disconnected from such systems?
- In conditions of high uncertainty budgeting is more oriented towards the management of external relationships with significant institutional actors than with the management of the organization itself. Budgets are relatively uncoupled from detailed aspects of the organizational task. In more moderate conditions of uncertainty, budgeting appears to be more functionally implicated in the management of the organizational task.
- This study suggests that the managers have minimal participation in budget decisions. the budget was minimally perceived as a planning and control device. The managers perceived the budget's resource allocation role as its most useful purpose.
- Privatisation brought changes consistent with Burawoy's prediction of coercive controls within a new despotic regime. New owners destroyed the internal state and internal labour markets and, following widespread redundancies, most workers were hired through internal subcontracting. The changes heightened worker divisions and rendered workers powerless to resist. Gaming was observed but this relieved the pressures of work intensification and proved functional to management. Significant changes to accounting controls were made. External reporting ceased in violation of legal requirements financial accounting became the preserve of the owning family and was beset with irregularities. Budgets became more market oriented and were transmitted downwards in a physical form to reinforce coercive pressures upon managers and thence the shop floor.
- There are many accounting and control practices at the organisation as the result of the culture and world views of individuals. e.g. the lack of a shareholding agreement, rewards based on need not on performance; the bowing to family hierarchy in appointing chairman of the board; the lack of separation of treasury and control functions, the strategic decisions to acquire a package plant and the geographical expansions to UAE; and the inability to confront perceived inequities in reward sharing.

9. Uddin, S., and Hopper, T. (2003) Accounting for privatisation in Bangladesh: testing world bank claims, Critical Perspectives on Accounting, V.14, Issue 7, p.739
This paper questions a World Bank claim that privatisation facilitates development by improving controls within enterprises and external regulation of financial markets acting on external accounting reports. It compares the post-privatisation performance of companies in Bangladesh examined in a World Bank report with the authors' own research on the same companies.
Privatisation has not increased returns to society: privatised companies' contributions to state revenue declined in real terms and as a proportion of value added. Transparent external reports failed to materialise as required by law and there was evidence of untoward transactions affecting minority shareholders, creditors, and tax collecting institutions. Internal controls may have become more commercial but at the cost of declining employment, wages, quality of working life, and employee rights. It argues that the IMF, the World Bank, and Western capitalist states have not provided the technical infrastructure and organisational capacity to execute their neo-liberal privatisation agenda, which rests on dubious socio-economic assumptions.
10. Hoque, Z., and Hopper, T. (1997) Political and industrial relations turbulence, competition and budgeting in the nationalised jute mills of Bangladesh, Accounting and Business Research, Vol.27, No.2, pp.125-143
Data obtained from 38 state-owned jute mills within the Bangladesh Jute Mills Corporation to test the propositions. It reveals a significant relationship between environmental factors and budget-related behaviour. Political factors, industrial relations and market competition were major influences on how budgeting systems were perceived. It shows how political volatility and industrial relations can render the formal systems of budgeting and controls ineffective for internal management despite worthy intentions. When managers believed external competition on their mill to be great, they perceived budgeting more positively.

Appendix 3.1: Summary of Previous Research in Higher Education

No	Description of Title	Issues / Aims	Findings and Comments
1.	Parker, L. D.(2002) Its been a pleasure doing business with you: a strategic analysis and critique of university change management, Critical Perspectives on Accounting, V.13, p.603	Examines some of the dimensions of changes in universities, reflecting on the spectrum of environmental forces and internal resources pressures that have begun to transform many aspects of university governance core activities, stakeholder relationships and academic work	Globalised environmental disturbances have directly impacted on university design archetypes including governance, accountability, decision making and communication. the consequent impacts on the financial, educational and research subsystems are found to be extensive and have penetrated the interpretive schemes that constitute the university life-world
2.	Meek, V. L. and Wood, F. Q. (1998) Higher education governance and management: Australia, Higher Education Policy, Vol.11, pp.165-181	Conducted survey of the governance and management of all 36 Australian publicly funded universities to determine what are considered to be the main issues and problems regarding the universities' operation after the reforms from the senior managers perspective.	(1)Heads of departments (HODs) and Deans supports for the leadership being provided by HODs and Deans. (2) HODs and Deans believe that decision making in the universities is 'Top Down'. (3) majority of Executive officers and 50% of Deans agree that tenure constrains the setting new directions, HODs doesn't agree. (4) Council should not be more active in the day-to-day management
3.	Watts, E. W. (1996) Internat allocation of funds: changes and challenges for Australian universities, Financial Accountability of Management, Vol.12, Issue.1, p.53	Examines some of the changes in the budgetary practice in Australian institution of higher education since the early 1980s.	There are two reasons for the adoption of RFM: (1) The institutional administrator believe that the main components of the RFM will continue as part of the government funding mechanism therefore they would be unwise to develop teir own allocation formulas. (2) To overcome a lack of data about teaching and research costs to develop a suitable management information system
4.	Pfeffer, J., and Moore, W. L. (1980) Power in university budgeting: a replication and extension, Administrative Science Quarterly, pp.637-653	Examines and compares the determinants of power and budget allocations on two campuses of a large, state university system.	(1) Faculty positions and budget allocations and budget allocations were a function of student enrollment and departmental power, and departmental power was related to the amount of a departmental's grant and contract funds as well as enrollment. (2)For the campus that faced less scarcity of resources, enrollment was more highly related and departmental power less strongly related to allocations. (3) Greater resource scarcity leads to stronger effects of power and more variance in the distribution of power.
5.	Salancik, G. R. and Pfeffer, J (1974b) Organisational decision making as political process: the case of a university budget, Administrative Quarterly Science, Vol. 19(2), p135	Examines the effect of subunit power on resource allocation decisions in an university. Subunit power is measured by both interviews of HODs and the analysis of archival records.	(1) Measure of departmental power in a university are significantly related to the proportion of the budget received. (2) Subunit power is related to the correlation between a subunit's resource and work load over time. The more powerful the department, the less the allocated resources are a function of departmental work load and student demand for course offerings.

6. Conway, T., Mackay, S., Yorke, D. (1994) Strategic planning in higher education: Who are the customers, Vol.8, No.6, pp.29-36
Exploratory research attempts to discover the degree to which UK higher education in the "new university" and colleges sector apply market orientation to their strategic planning.
Half the institutions only implied a customer orientation in their planning. Many UK higher education institutions are ill-prepared to respond to the increasingly competitive environment in which they have been placed. Successful strategies depend on an understanding of the needs and wants of customers in the market in order to deliver the right goods and services effectively and efficiently.
7. Salancik and Pfeffer (1974a) The bases and use of power in organizational decision making: the case of a university, ASQ, Vol. 19, p453
Examines the effects of subunit power on organisational decision making in large Midwestern state university.
Departmental power is found to be most highly correlated with the department's ability to obtain outside grants and contracts, with national prestige and the relative size of the graduate program following closely in importance.
8. Covalevski, M. A., and Dirsmith, M. W. (1988a) An institutional perspective on the rise, social transformation, and fall of a university budget, Administrative Science Quarterly, Vol.33, pp.562-587
Adopted an institutional perspective to examine how, by whom, and for what purposes societal expectations of acceptable budgetary practices are articulated, enforced, and modified during a period of organizational decline. Data were gathered on a large university system's budgeting process both through extensive archival documents and in-depth interviews with key budgetary actors.
The paper shows how specific individuals in both the organization and the larger social context actively invent and then articulate institutionalized expectations regarding organizational policies and procedures. These expectations are quite specific, procedural, and enforceable. This study also shows that the process of institutionalization appears to be infused with power and self-interest both within the organization and in extraorganizational relations, with extraorganizational relations appearing to play a dominant role in periods of organizational decline.

Appendix 4.1: Summary of Previous Research That Use Institutional Theory

No	Description of Article	Issues / Aims	Findings and Comments
1.	Dacin, M., Goodstein, T. J., Richard, W. (2002) Institutional Theory And Institutional Change: Introduction To The Special Research Forum, Academy of Management Journal, Vol. 45, Issue 1, p45.	(1) What do these studies tell us about primary sources or drivers of institutional change? (2) What do they tell us about the factors that influence how organizations respond to organizational change (by resistance or legitimization) and initiation of institutional change? (3) What has been learned about the process of institutional change, in particular 'de-institutionalisation' and the emergence of new forms?	Three major sources of pressure on institutionalized norms or practices: functional, political and social source. Functional pressures may be tied to broad environmental changes, such as intensified competition for resources. Political pressure, result primarily from shifts in the interests and underlying power distributions that have supported and legitimated existing institutional arrangements. Social pressure is effected by changes in law or social expectations that might hinder the continuation of a practice.
2.	Carpenter, V., L. and Feroz, E., H. (2001), Institutional theory and accounting rule choice: an analysis of four US state governments decisions to adopt generally accepted accounting principles, AOS, V.26, pp. 565-596	Explores how institutional pressures on state governments influenced the decision of these governments to adopt or resist the use of GAAP for external financial reporting in the United States. Forms of coercive institutional pressures associated with early GAAP adoption; Factors that may lead to initial resistance to institutional pressures.	(1) Adoption of GAAP in the USA stem from coercive isomorphism from the credit market. (2) Identify the best course of action from the other organisations (3) Professional associations such as GFOA influenced state government in the USA to promote specific financial management practices. This paper is a good example of case study to show how institutional pressure on an organization influenced the decision of the organization to change.
3.	Oliver, C. (1991), Strategic Responses To Institutional Processes, Academy of Management Review, 16 (1), 145 - 179	The purpose of this article is o identify the different strategic responses that organisations enact as a result of the institutional pressures toward conformity that are exerted on them and to develop a preliminary conceptual framework for predicting the occurrence of the alternative strategies.	Institutional theory offers several unique insights into organisation environment relations and the ways in which organisations react to institutional processes. Five types of strategic responses are acquiescence, compromise, avoidance, defiance, and manipulation. This article is one of good sources to understand institutional theory and resource dependency.
4.	Hussain, Md. M. and Hoque, Z. (2002) Understanding non-financial performance measurement practices in Japanese banks: a new institutional sociology perspective, Accounting, Auditing and Accountability Journal, Vol.15, No.2, pp.162-183	Use a new institutional sociology theory to understand and explain what factors affected the design and use of non-financial performance measurement systems in four Japanese banks.	Several institutional forces (economic constraints to be the most forceful factor, followed by the central regulatory control, accounting standards/financial legislation, management's strategic focus, bank size, competition, and organizational tendency to copy best practices from others) influenced the banks to implement a particular performance measurement systems.

5. Brignall, S., and Modell, S. (2000) An institutional perspective on performance measurement and management in the 'new public sector', *Management Accounting Research*, Vol.11, pp. 281-306

Explore the implications of institutional theory for the successful implementation of performance measurement used by management of the focal organization in public sector as it attempts to arbitrate between and influence the three group of stakeholders (funders, professional groups and purchasers)
 6. Collier, P. M. (2001) The power of accounting: a field study of local financial management in a police force, *Management Accounting Research*, Vol.12, pp.465-486

Describes the introduction of management accounting change in the form of local financial management in a police force, West Mercia Constabulary, using an ethnographic study. It applies institutional theory to understand the context, process and consequences of the introduction of devolved budgeting systems to the organization.
 7. D'Aunno, T., Succi, M., and Alexander, J. A. (2000) The role of institutional and market forces in divergent organisational change, *ASQ*, Vol.45, pp. 679-703

Examine the role of market forces and heterogeneous institutional elements in promoting divergent change in core activities among all U.s. rural hospitals from 1984 to 1991
 8. Burns, J. (1999) The dynamics of accounting change inter-play between new practices, routines, institutions, power and politics, *Accounting, Auditing & Accountability Journal*, Vol.13, No.5, pp.566-596

This paper explores accounting change in the product development department of a small UK chemicals manufacturer. An institutional framework of accounting and a framework of power mobilisation help tease out the dynamics of the processes of change.
- The differing nature of the interrelationships between these three key stakeholders will influence the extent to which performance measurement in the focal service-provider organizations will be balanced and integrated.
- Two contributions to institutional theory. First, is the development of understanding of relations of power, particularly where interests coincide and shifts in power are a by-product of legitimating processes. Second, is an explanation of how loose coupling can take place through accounting, in which a devolved budget can satisfy both institutional and technical demands.
- Results support the view that divergent change depends on both market forces (proximity to competitors, disadvantages in service mix) and institutional forces (state regulation, ownership and governance norms, and mimicry of models of divergent change)
- Highlights power over resources, decision making and meanings as being key facilitators to the implementation of accounting change. Also demonstrates barriers to change and conflict which emerge as new accounting routines fail to impinge on existing laboratory ways of thinking. Focusing on the processes of accounting change within a specific organisational setting illuminates aspects of the change process which more conventional "static" approaches would likely ignore.

1. Pancasila – The State Philosophy

Pancasila, pronounced Panchaseela, is the philosophical basis of the Indonesian state. Pancasila consists of two Sanskrit words, "panca" meaning five, and "sila" meaning principle. It comprises five inseparable and interrelated principles. They are:

1.1. Belief in the One and Only God

This principle of Pancasila reaffirms the Indonesian people's belief that God does exist. It also implies that the Indonesian people believe in life after death. It emphasizes that the pursuit of sacred values will lead the people to a better life in the hereafter. The principle is embodied in article 29, Section 1 of the 1945 Constitution and reads: "The state shall be based on belief in the One and Only God".

1.2. Just and Civilized Humanity

This principle requires that human beings be treated with due regard to their dignity as God's creatures. It emphasizes that Indonesian people do not tolerate physical or spiritual oppression of human beings by their own people or by any nations.

1.3. The Unity of Indonesia

This principle embodies the concept of nationalism, of love for one's nation and motherland. It envisages the need to always foster national unity and integrity. Pancasila nationalism demands that Indonesians avoid superiority feelings on ethnical grounds, for reasons of ancestry and color of the skin. In 1928, Indonesian youth pledged to have one country, one nation and one language, while the Indonesian coat of arms enshrines the symbol of "Bhinneka Tunggal Ika" which means "unity in diversity". Social differences in daily life should never affect national unity and integrity. Referring to this question, President Soeharto once remarked: "What we should do is to have these differences blend us together in perfect harmony like the beautiful spectrum of the rainbow."

1.4. Democracy Guided by the Inner Wisdom in the Unanimity Arising Out of Deliberations Amongst Representatives

On this type of democracy, President Soeharto said: "The democracy that we practice is Pancasila democracy of which the basic principles and legal basis are laid down in the 1945 Constitution." Pancasila democracy calls for decision-making through deliberations, or musyawarah, to reach a consensus, or mufakat. It is democracy that lives up to the principles of Pancasila. This implies that democratic right must always be exercised with a deep sense of responsibility to God Almighty according to one's own conviction and religious belief, with respect for humanitarian values of man's dignity and integrity, and with a view to preserving and strengthening national unity and the pursuit of social justice.

1.5. Social Justice for the Whole of the People of Indonesia

This principle calls for the equitable spread of welfare to the entire population, not in a static but in a dynamic and progressive way. This means that all the country's natural resources and the national potentials should be utilized for the greatest possible good and happiness of the people. Social justice implies protection of the weak. But protection should not deny their work. On the contrary, they should work according to their abilities and fields of activity. Protection should prevent willful treatment by the strong and ensure the rule of justice. These are the sacred values of Pancasila which, as a cultural principle, should always be respected by every Indonesian because it is now the ideology of the state and the life philosophy of the Indonesian people.

Source : "INDONESIA 1996 : AN OFFICIAL HANDBOOK", Department of Information, Directorate of Foreign Information Services, Perum Percetakan Negara RI, 1995/1996

2. The Coat of Arms



The Indonesian coat of arms consists of a golden eagle, called "GARUDA," that is a figure from ancient Indonesian epics. It is also pictured on many temples from the 6th Century. The eagle is a symbol of creative energy. Its principal color, gold, suggests the greatness of the nation. The black color represents nature. There are 17 feathers on each wing, 8 on the tail and 45 on the neck. These figures stand for the date of Indonesia's independence proclamation: 17 August, 1945.

The motto, "Bhinneka Tunggal Ika" (Unity in Diversity), is enshrined on a banner held in the eagle's talons. This old Javanese motto was introduced by Empu Tantular, a saint of the Majapahit Kingdom, in the 15th Century. It signifies the unity of the Indonesian people despite their diverse ethnic and cultural backgrounds. The shield symbolizes self-defense in struggle or and protection of oneself. The red and white colors on the shield's background denote the colors of the Indonesian national flag. The five symbols on the shield represent the state philosophy of Pancasila, the foundation of the Indonesian state. The bar across the center indicates the equator which passes through the islands of Sumatra, Kalimantan, Sulawesi and Halmahera. This is a reminder of the fact that the Republic of Indonesia is the only tropical country in which the people have built a free and sovereign state by their own hands. The golden star on the black background in the center of the shield represents the first principle of Pancasila, belief in the One and Only God. The chain symbolizes successive human generations. The round links represent women and the square ones men. It is the symbol of the second principle, just and civilized humanity. The "beringin," or banyan tree, symbolizes the third principal, the unity on Indonesia. The head of the "banteng," or wild bull (*bos javanicus*), which is black on a red background, represents the fourth principle, democracy guided by the inner wisdom of deliberations of representatives. The fifth principle, social justice for all Indonesian people, is symbolized by the gold and white paddy and cotton ears.

Source : "INDONESIA 1996 : AN OFFICIAL HANDBOOK", Department of Information, Directorate of Foreign Information Services, Perum Percetakan Negara RI, 1995/1996

3. The 1945 Constitution

The Constitution of the Republic of Indonesia is usually referred to as the 1945 Constitution. This is partly because the constitution was drafted and adopted in 1945 when the Republic was established, and partly to distinguish it from two other constitutions, which were introduced in free Indonesia. Furthermore, the articles of the 1945 Constitution spell out the ideals and the goals for which independence was proclaimed on August 17, 1945, and defended thereafter. It reflects the spirit and vigor of the time when the constitution was shaped. It was inspired by the urge for unity and for the common goals and democracy built upon the age-old Indonesian concepts of gotong royong (mutual assistance), deliberations of representatives (musyawarah) and consensus (mufakat).

Preceded by a preamble, the Constitution of the Republic of Indonesia consists of 37 articles, forum transitional clauses and two additional provisions. The preamble is composed of four paragraphs and includes a condemnation of any form of colonialism in the world, a reference to Indonesia's struggle for independence, a declaration of independence and a statement of fundamental goals and principles. It further states, inter alia, that Indonesia's national independence shall be established in the unitary state of the Republic of Indonesia with sovereignty vested in the people. The state shall be based upon the following philosophical principles: Belief in the One and Only God, just and civilized humanity, the unity of Indonesia, democracy guided by the inner wisdom of deliberations of representatives, and social justice for all the Indonesia people.

Guided by these fundamental principles, the basic aims of the state are to establish an Indonesian Government which shall protect all the Indonesian people and third entire motherland, advance the public welfare, develop the intellectual life of the nation, and contribute toward the establishment of a world order based on freedom, peace and social justice.

Source : "INDONESIA 1996 : AN OFFICIAL HANDBOOK", Department of Information, Directorate of Foreign Information Services, Perum Percetakan Negara RI, 1995/1996

Appendix 5.2: Indonesian Profile

Introduction

Background

The Dutch began to colonize Indonesia in the early 17th century; the islands were occupied by Japan from 1942 to 1945. Indonesia declared its independence after Japan's surrender, but it required four years of intermittent negotiations, recurring hostilities, and UN mediation before the Netherlands agreed to relinquish its colony. Indonesia is the world's largest archipelagic state. Current issues include: alleviating widespread poverty, preventing terrorism, continuing the transition to popularly-elected governments after four decades of authoritarianism, implementing reforms of the banking sector, addressing charges of cronyism and corruption, holding the military and police accountable for human rights violations, and resolving armed separatist movements in Aceh and Papua.

Geography

Location

Southeastern Asia, archipelago between the Indian Ocean and the Pacific Ocean
5 00 S, 120 00 E

Geographic

coordinates:

Map references:

Southeast Asia

Area:

total: 1,919,440 sq km; *land:* 1,826,440 sq km; *water:* 93,000 sq km

Area - comparative:

slightly less than three times the size of Texas

Land boundaries:

total: 2,830 km; *border countries:* East Timor 228 km, Malaysia 1,782 km, Papua New Guinea 820 km

Coastline:

54,716 km

Maritime claims:

measured from claimed archipelagic straight baselines
territorial sea: 12 nm; *exclusive economic zone:* 200 nm

Climate:

tropical; hot, humid; more moderate in highlands

Terrain:

mostly coastal lowlands; larger islands have interior mountains

Elevation extremes:

lowest point: Indian Ocean 0 m; *highest point:* Puncak Jaya 5,030 m

Natural resources:

petroleum, tin, natural gas, nickel, timber, bauxite, copper, fertile soils, coal, gold, silver

Land use:

arable land: 11.32%; *permanent crops:* 7.23%; *other:* 81.45% (2001)

Irrigated land:

48,150 sq km (1998 est.)

Natural hazards:

occasional floods, severe droughts, tsunamis, earthquakes, volcanoes, forest fires

Environment - current issues:

deforestation; water pollution from industrial wastes, sewage; air pollution in urban areas; smoke and haze from forest fires

Environment - international agreements:

party to: Biodiversity, Climate Change, Desertification, Endangered Species, Hazardous Wastes, Law of the Sea, Ozone Layer Protection, Ship Pollution, Tropical Timber 83, Tropical Timber 94, Wetlands; *signed, but not ratified:* Climate Change-Kyoto Protocol, Marine Life Conservation

Geography - note:

archipelago of 17,508 islands (6,000 inhabited); straddles equator; strategic location astride or along major sea lanes from Indian Ocean to Pacific Ocean

People

Population:

238,452,952 (July 2004 est.)

Age structure:

0-14 years: 29.4% (male 35,635,790; female 34,416,854)

15-64 years: 65.5% (male 78,097,767; female 78,147,909)

65 years and over: 5.1% (male 5,308,986; female 6,845,646) (2004 est.)

Median age:

total: 26.1 years; *male:* 25.7 years; *female:* 26.6 years (2004 est.)

Nationality:

noun: Indonesian(s); *adjective:* Indonesian

Ethnic groups:

Javanese 45%, Sundanese 14%, Madurese 7.5%, coastal Malays 7.5%, other 26%

Religions:

Muslim 88%, Protestant 5%, Roman Catholic 3%, Hindu 2%, Buddhist 1%, other 1% (1998)

Languages:

Bahasa Indonesia (official, modified form of Malay), English, Dutch, local dialects, the most widely spoken of which is Javanese

Government

Country name:

conventional long form: Republic of Indonesia; *conventional short form:* Indonesia

local long form: Republik Indonesia; *local short form:* Indonesia; *former:* Netherlands East Indies; Dutch East Indies

Government type:	republic
Capital:	Jakarta
Administrative divisions:	<p>27 provinces (propinsi-propinsi, singular - propinsi), 2 special regions* (daerah-daerah istimewa, singular - daerah istimewa), and 1 special capital city district** (daerah khusus ibukota); Aceh*, Bali, Banten, Bengkulu, Gorontalo, Jakarta Raya**, Jambi, Jawa Barat, Jawa Tengah, Jawa Timur, Kalimantan Barat, Kalimantan Selatan, Kalimantan Tengah, Kalimantan Timur, Kepulauan Bangka Belitung, Lampung, Maluku, Maluku Utara, Nusa Tenggara Barat, Nusa Tenggara Timur, Papua, Riau, Sulawesi Selatan, Sulawesi Tengah, Sulawesi Tenggara, Sulawesi Utara, Sumatera Barat, Sumatera Selatan, Sumatera Utara, Yogyakarta*;</p> <p>note - with the implementation of decentralization on 1 January 2001, the 357 districts or regencies became the key administrative units responsible for providing most government services</p> <p><i>note:</i> following the 30 August 1999 provincial referendum for independence that was overwhelmingly approved by the people of Timor Timur and the October 1999 concurrence of Indonesia's national legislature, the name Timor Leste (East Timor) was adopted as the name for the political entity formerly known as Propinsi Timor Timur; East Timor gained its formal independence on 20 May 2002</p>
Independence:	<p>17 August 1945 (proclaimed independence)</p> <p><i>note:</i> on 27 December 1949 the Netherlands recognized Indonesian independence</p>
National holiday:	Independence Day, 17 August (1945)
Constitution:	<p>August 1945, abrogated by Federal Constitution of 1949 and Provisional Constitution of 1950, restored 5 July 1959</p>
Legal system:	based on Roman-Dutch law, substantially modified by indigenous concepts and by new criminal procedures and election codes; has not accepted compulsory ICJ jurisdiction
Suffrage:	17 years of age; universal and married persons regardless of age
Executive branch:	<p><i>chief of state:</i> President MEGAWATI Sukarnoputri (since 23 July 2001) and Vice President Hamzah HAZ (since 26 July 2001); <i>note</i> - the president is both the chief of state and head of government</p> <p><i>head of government:</i> President MEGAWATI Sukarnoputri (since 23 July 2001) and Vice President Hamzah HAZ (since 26 July 2001); <i>note</i> - the president is both the chief of state and head of government</p> <p><i>cabinet:</i> Cabinet appointed by the president</p> <p><i>elections:</i> president and vice president previously were elected separately by the People's Consultative Assembly or MPR for five-year terms; next election to be held 5 July 2004; in accordance with constitutional changes, the election of the president and vice president will be by direct vote of the citizenry</p> <p><i>election results:</i> MEGAWATI Sukarnoputri elected president, receiving 591 votes in favor (91 abstentions); Hamzah HAZ elected vice president, receiving 340 votes in favor (237 against)</p> <p><i>note:</i> the People's Consultative Assembly (Majelis Permusyawaratan Rakyat or MPR) includes the House of Representatives (Dewan Perwakilan Rakyat or DPR) plus 195 indirectly selected members; it meets every five years to approve broad outlines of national policy and also has yearly meetings to consider constitutional and legislative changes; constitutional amendments adopted in 2001 and 2002 provide for the MPR to be restructured in 2004 and to consist entirely of popularly-elected members who will be in the DPR and the new House of Regional Representatives (Dewan Perwakilan Daerah or DPD); the MPR will no longer formulate national policy</p>
Legislative branch:	<p>unicameral House of Representatives or Dewan Perwakilan Rakyat (DPR) (550 seats; members serve five-year terms)</p> <p><i>elections:</i> last held 5 April 2004 (next to be held in April 2009)</p> <p><i>election results:</i> percent of vote by party - Golkar 21.6%, PDI-P 18.5%, PKB 10.6%, PPP 8.2%, PD 7.5%, PKS 7.3%, PAN 6.4%, others 19.9%; seats by party - Golkar 128, PDI-P 109, PPP 58, PD 57, PKB 52, PAN 52, PKS 45, others 49</p> <p><i>note:</i> because of election rules, the number of seats won does not always follow the number of votes received by parties</p>
Judicial branch:	<p>Supreme Court or Mahkamah Agung (justices appointed by the president from a list of candidates approved by the legislature); a separate Constitutional Court was invested by the president on 16 August 2003; in March 2004 the Supreme Court assumed administrative and financial responsibility for the lower court system</p>

Political parties and leaders:	from the Ministry of Justice and Human Rights Crescent Moon and Star Party or PBB [Yusril Ihza MAHENDRA, chairman]; Democratic Party or PD [Budi SANTOSO, chairman]; Functional Groups or Golkar [Akbar TANDJUNG, general chairman]; Indonesia Democratic Party-Struggle or PDI-P [MEGAWATI Sukarnoputri, chairperson]; National Awakening Party or PKB [Alwi SHIHAB, chairman]; National Mandate Party or PAN [Amien RAIS, chairman]; Prosperous Justice Party or PKS [Hidayat NUR WAHID, chairman]; United Development Party or PPP [Hamzah HAZ, chairman]
Political pressure groups and leaders:	NA
International organization participation:	APEC, ARF, AsDB, ASEAN, BIS, CP, FAO, G-15, G-77, IAEA, IBRD, ICAO, ICC, ICFTU, ICRM, IDA, IDB, IFAD, IFC, IFRCs, IHO, ILO, IMF, IMO, Interpol, IOC, IOM (observer), ISO, ITU, MONUC, NAM, OIC, OPCW, OPEC, UN, UNAMSIL, UNCTAD, UNESCO, UNIDO, UNMIL, UNOMIG, UPU, WCL, WCO, WFTU, WHO, WIPO, WMO, WToO, WTrO
Flag description:	two equal horizontal bands of red (top) and white; similar to the flag of Monaco, which is shorter; also similar to the flag of Poland, which is white (top) and red
Economy	
Economy - overview:	Indonesia, a vast polyglot nation, faces economic development problems stemming from recent acts of terrorism, unequal resource distribution among regions, endemic corruption, the lack of reliable legal recourse in contract disputes, weaknesses in the banking system, and a generally poor climate for foreign investment. Indonesia withdrew from its IMF program at the end of 2003, but issued a "White Paper" that commits the government to maintaining fundamentally sound macroeconomic policies previously established under IMF guidelines. Investors, however, continued to face a host of on-the-ground microeconomic problems and an inadequate judicial system. Keys to future growth remain internal reform, building up the confidence of international and domestic investors, and strong global economic growth.
GDP:	purchasing power parity - \$758.8 billion (2003 est.)
GDP - real growth rate:	4.1% (2003 est.)
GDP - per capita:	purchasing power parity - \$3,200 (2003 est.)
GDP - composition by sector:	<i>agriculture:</i> 16.6%; <i>industry:</i> 43.6%; <i>services:</i> 39.9% (2003 est.)
Investment (gross fixed):	19.7% of GDP (2003)
Population below poverty line:	27% (1999)
Household income or consumption by percentage share:	<i>lowest 10%:</i> 4%; <i>highest 10%:</i> 26.7% (1999)
Distribution of family income - Gini index:	37 (2001)
Inflation rate (consumer prices):	6.6% (2003 est.)
Labor force:	105.7 million (2003)
Labor force - by occupation:	agriculture 45%, industry 16%, services 39% (1999 est.)
Unemployment rate:	8.7% (2003 est.)
Budget:	<i>revenues:</i> \$40.91 billion; <i>expenditures:</i> \$44.95 billion, including capital expenditures of NA (2003 est.)
Public debt:	72.9% of GDP (2003)
Agriculture - products:	rice, cassava (tapioca), peanuts, rubber, cocoa, coffee, palm oil, copra, poultry, beef, pork, eggs
Industries:	petroleum and natural gas, textiles, apparel, footwear, mining, cement, chemical fertilizers, plywood, rubber, food, tourism
Industrial production growth rate:	3.7% (2003 est.)

Electricity - production:	95.78 billion kWh (2001)
Electricity - consumption:	89.08 billion kWh (2001)
Electricity - exports:	0 kWh (2001)
Electricity - imports:	0 kWh (2001)
Oil - production:	1.451 million bbl/day (2001 est.)
Oil - consumption:	1.045 million bbl/day (2001 est.)
Oil - exports:	NA (2001)
Oil - imports:	NA (2001)
Oil - proved reserves:	7.083 billion bbl (1 January 2002)
Natural gas - production:	69 billion cu m (2001 est.)
Natural gas - consumption:	36.2 billion cu m (2001 est.)
Natural gas - exports:	32.8 billion cu m (2001 est.)
Natural gas - imports:	0 cu m (2001 est.)
Natural gas - proved reserves:	2.549 trillion cu m (1 January 2002)
Current account balance:	\$7.336 billion (2003)
Exports:	\$63.89 billion f.o.b. (2003 est.)
Exports - commodities:	oil and gas, electrical appliances, plywood, textiles, rubber
Exports - partners:	Japan 22.3%, US 12.1%, Singapore 8.9%, South Korea 7.1%, China 6.2% (2003 est.)
Imports:	\$40.22 billion f.o.b. (2003 est.)
Imports - commodities:	machinery and equipment, chemicals, fuels, foodstuffs
Imports - partners:	Japan 13%, Singapore 12.8%, China 9.1%, US 8.3%, Thailand 5.2%, Australia 5.1%, South Korea 4.7%, Saudi Arabia 4.6% (2003 est.)
Reserves of foreign exchange & gold:	\$36.25 billion (2003)
Debt - external:	\$135.7 billion (2003 est.)
Economic aid - recipient:	\$43 billion Indonesia finished its IMF program in December 2003 but still receives bilateral aid through the Consultative Group on Indonesia (CGI), which pledged \$2.8 billion in grants and loans for 2004. (2003 est.)
Currency:	Indonesian rupiah (IDR)
Currency code:	IDR
Exchange rates:	Indonesian rupiahs per US dollar - 8,577.13 (2003), 9,311.19 (2002), 10,260.8 (2001), 8,421.77 (2000), 7,855.15 (1999)
Fiscal year:	calendar year; note - previously was 1 April - 31 March, but starting with 2001, has been changed to calendar year
Transnational Issues	
Disputes - international:	East Timor-Indonesia Boundary Committee continues to meet, survey and delimit land boundary, but several sections of the boundary remain unresolved; Indonesia and East Timor contest the sovereignty of the uninhabited coral island of Palau Batek/Fatu Sinai, which hinders a decision on a southern maritime boundary; numbers of East Timor refugees in Indonesia refuse repatriation; the Australia-East Timor 1999 maritime delimitation establishes partial maritime boundaries over part of the Timor Gap, but temporary resource-sharing agreements over an unreconciled area hamper creation of a shared maritime boundary with Indonesia; ICJ's award of Sipadan and Ligitan islands to Malaysia in 2002 prompted Indonesia to assert claims to and to establish a presence on its smaller outer islands; Indonesian secessionists, squatters and illegal migrants create repatriation problems for Papua New Guinea

Appendix 6.1: Interview Questions***FIELD STUDIES OF MANAGEMENT CONTROL SYSTEMS CHANGE
IN TWO LARGE INDONESIAN UNIVERSITIES*****Sheffield
Hallam University**

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Introduction

The questions will be focused on the participants' interpretations of the operation of control systems before and after higher education reforms, and their perceptions of the institutional factors that influence the management control practice. All responses will be treated in the strictest confidence and only summarised results are published. Your time and cooperation is very much appreciated.

The Participants

The participants will be about 20 people in each organisation and will be selected based on several criteria:

- i. The participants should have some knowledge or involvement in control systems before or / and after higher education reforms
- ii. Senior and non-senior managers in accounting and non-accounting departments.
- iii. Managers who left the university but were there before reforms will also be interviewed where necessary

Part A: Background of Participants

All responses will be treated in the strictest confidence and only summarised results are published.

1. Gender: ☐ Male ☐ Female
2. Age Group: ☐ Below 30 ☐ 31 – 40 ☐ 41 – 50 ☐ 50 – 65
3. Your position is:
4. Your department is
5. Your responsibilities are:
6. No of people you are currently supervising:
7. Your highest educational qualification
☐ Diploma ☐ Bachelor degree ☐ Postgraduate Diploma
☐ Masters degree ☐ PhD ☐ Any other (please state).....
8. Do you have any professional qualification: ☐ Yes ☐ No
9. If yes, please what profession(s):
10. How long have you been working in this university:
11. How long have you been working in your current position:

Part B. INTERVIEW QUESTIONS AND DISCUSSIONS**I. Formal and Informal types of controls**

1. Briefly describe how the following activities operate in the university as a formal procedure before and after autonomy?
 - i. How managers monitored and evaluated subordinate (lower level managers) performance
 - ii. How managers monitored and evaluated the development of new services and business expansions
 - iii. How managers monitored and evaluated managerial personnel (middle/senior managers)
 - iv. How managers monitored and evaluated allocation of the budget among alternate use
 - v. How managers monitored and evaluated pricing decision
 - vi. How managers monitored and evaluated scheduling of services/operations
 - vii. How managers monitored and evaluated distribution of services/outputs
 - viii. How managers' salaries/rewards are determined
 - ix. How costs are controlled or managed
 - x. How service equalities are controlled
2. Could you describe with some examples of how your decisions in managing your organisational unit had been affected by the autonomy of the university?
3. What do you perceive as the main aims of the university's budgetary control system?
4. How do you perceive the aims of the university's budgetary control systems being achieved in practice?
5. How will you describe the use of informal control in your organisation management process before and after autonomy? (Informal controls include accounting and control practices that are the result of organizational norms,

values, social (self and group control), and culture. They are including less reliance on standard operating procedures, programs and plans, accounting performance measures, behaviour control; more personal control, clan controls, etc.)

II. Issues with Power/Control/Influence

1. How will you describe your influence in the following?

- i. Determining goals, policies, and causes of action
- ii. Capital budget/capital investment decisions
- iii. Annual budget allocations and monitoring
- iv. Appointment of directors and executives
- v. Appointment of other managers
- vi. Determining salary/remuneration/rewards for executives/directors
- vii. Determining salary/remuneration/rewards for other managers
- viii. Performance monitoring / Jobs monitors
- ix. Types of services to be provided
- x. Work scheduling
- xi. Cost control and cost management
- xii. Business expansion decision
- xiii. Service quality control

2. How would you describe the Chief executive's influence/power in the following decisions?

- i. Determining goals, policies and cause of action
- ii. Capital budget/capital investment decisions
- iii. Annual budget allocations and monitoring
- iv. Appointment of directors and executives
- v. Appointment of other managers
- vi. Determining salary/remuneration/rewards for executives/directors
- vii. Determining salary/remuneration/rewards for other managers
- viii. Performance monitoring / Jobs monitoring
- ix. Types of services to be provided
- x. Work scheduling
- xi. Cost control and cost management

- xii. Business expansion decision
- xiii. Service quality control

3. How would you describe the government/ministry of education or the sector ministry's influence/power in the following decisions?

- i. Determining goals, policies and cause of action
- ii. Capital budget/capital investment decisions
- iii. Annual budget allocations and monitoring
- iv. Appointment of directors and executives
- v. Appointment of other managers
- vi. Determining salary/remuneration/rewards for executives/directors
- vii. Determining salary/remuneration/rewards for other managers
- viii. Performance monitoring / Jobs monitoring
- ix. Types of services to be provided
- x. Work scheduling
- xi. Cost control and cost management
- xii. Business expansion decision
- xiii. Service quality control

4. How would you describe the stakeholder(s) influence/power in the following decisions?

- xiv. Determining goals, policies and cause of action
- xv. Capital budget/capital investment decisions
- xvi. Annual budget allocations and monitoring
- xvii. Appointment of directors and executives
- xviii. Appointment of other managers
- xix. Determining salary/remuneration/rewards for executives/directors
- xx. Determining salary/remuneration/rewards for other managers
- xxi. Performance monitoring / Jobs monitoring
- xxii. Types of services to be provided
- xxiii. Work scheduling
- xxiv. Cost control and cost management
- xxv. Business expansion decision
- xxvi. Service quality control

5. Is there any competition and conflict between variously constituted and powerful interest groups in relations to how the university's activities are carried out? How have such competitions and conflicts affected the implementation and operation of the university's management control systems?
6. How would you describe the participation or influence of lower level managers in the following decisions?
 - i. Determining goals, policies and cause of action
 - ii. Capital budget/capital investment decisions
 - iii. Setting annual budget targets
 - iv. Monitoring or controlling budgets
 - v. Determining manager's salary/rewards
 - vi. Performance monitoring / Jobs monitors
 - vii. Types of services to be provided
 - viii. Work scheduling
 - ix. Cost control and cost management
 - x. Business expansion decisions
 - xi. Service quality control

III. Impacts of Institutional Factors

1. How will you describe the influences of the following factors on your university's operations and management control systems such as budgets / performance evaluation / reward structure (For example, are they forces for change, facilitators of change, or barriers to change?; Which are the most important factors?; How and why has the influence of these factors changed over the years)?
 - i. Change in organisation status from government institution to autonomous institution
 - ii. Recent economic crisis in Indonesia/Asia
 - iii. Increase market competition
 - iv. Professional Bodies
 - v. Educational Institutions
 - vi. Technology
 - vii. Culture, religion and beliefs

- viii. Consultancy industry
- ix. Regulation and legislation (e.g. international and national accounting standard, standard quality certification (ISO))
- x. The influence of other successful universities in Indonesia and abroad
- xi. The other organisations (such as Government, labour unions, financial institutions, etc)

Part C. Additional information that could be collected through documentary evidence

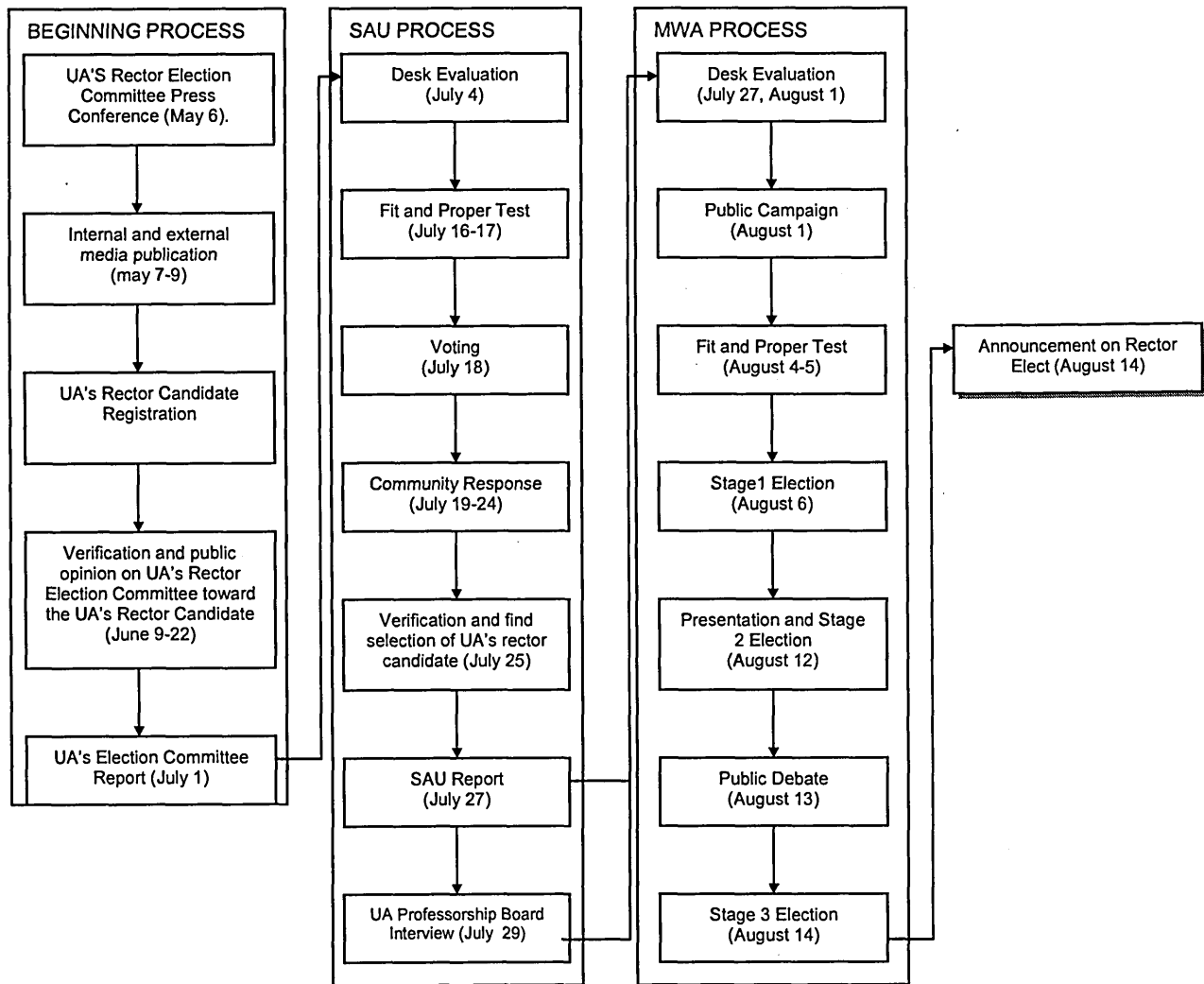
The historical development of the universities and the control practices.

1. The university's history.
 - i. When was it established?
 - ii. When was it reformed?
 - iii. How it has been reformed?
 - iv. Why it has been reformed?

The background of the organisation

1. Organisational chart and the chart of the accounting / finance department before and after autonomy
2. How are positions in executive and lower levels filled before and after autonomy?
3. Share ownership before and after autonomy
4. University's annual report (financial situation) (before and after autonomy)
5. Number of senior managers, middle level managers, junior managers, and operating staff before and after autonomy
6. What are the criteria for recruitment, selection, promotion, placing, transferring and retirement in the university before and after autonomy?
7. How is the managers appointed before and after autonomy? (including how many members)

Appendix 10.1: Didik University (DU)'s Rector Election Flow of Process 2002



Appendix 10.2: Didik University's Rector Election Process Schedule

