

THE ADOPTION OF PERFORMANCE-BASED BUDGETING IN INDONESIA PUBLIC SECTORS: NOTE TO FUTURE RESEARCH

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ABSTRACT

The Indonesian government officially adopted a performance-based budgeting system, replacing the traditional budgeting system in 2003, as part of public sector reforms. The Reforms that have been ongoing for almost two decades have not shown a significant impact on government performance. Previous studies show that there are obstacles and challenges in implementing performance-based budgets. Institutional theory states that the adoption of a system may occur because the organization wants to change and there is a demand to be better (normative isomorphism), adopting only because it imitates/copying other organizations due to conditions of uncertainty (mimetic isomorphism), or adoption due to pressure from other parties (coercive isomorphism). Previous studies have shown mixed results on the position where the adoption of performance-based budgeting in Indonesia is viewed as based on institutional theory. Decoupling occurs in the implementation of performance-based budgeting, namely there is an inconsistency between theory/concept and its implementation. The purpose of this study is to critically review previous studies and provide us with future research notes on the adoption of performance-based budgets. Literature reviews are used to explore, compare and confirm the findings of previous studies. The experiences of other countries adopting performance-based budgeting have also been explored with mixed results. Previous studies have mostly used quantitative research methods, so a different alternative approach (qualitative) is needed to produce more in-depth research. Notes for further research are needed in opening horizons and views on the phenomenon of the adoption of performance-based budgeting in Indonesia.

Keywords: Performance-Based Budgeting, Adoption, Research Note.

INTRODUCTION

The history of financial management reforms in the public sector began in the 1980s which was carried out in developed countries as an answer to the shortcomings and weaknesses of the previous model. Many changes have been made by adopting the New Public Management (NPM) approach, the welfare state, and reinventing government in many countries, especially Anglo-Saxon countries (Mardiasmo, 200; Osborne & Gaebler, 1992). The changes occurred starting from planning, budgeting, recording/accounting, reporting, and accountability stages as well as supervision.

Reform at the planning stage takes the form of a change from traditional, bureaucratic, top-down and rigid patterns to a planning pattern based on flexible, bottom-up, participatory and coordinative organizational strategic management (Pollit, 1993). Changes in the budgeting system have changed from traditional, line item and incremental budgeting patterns to NPM-based budgeting such as performance based budgeting, zero based budgeting (ZBB) and

planning programming budgeting system (PPBS). Blumentritt (2006) argues that the criteria for good planning and budgeting are characterized by continuous, flexible and accurate characteristics so as between long-term strategic planning and operational short-term planning, up to the budgeting stage must have a link or synergy. The financial accounting and systems of public sector are then should follow and adapt to the on going changes

In the field of budgeting, the last two decades have witnessed a surge of enthusiasm for budgeting reform with the adoption of performance-based budgeting in both developed and developing countries (Shah & Shen, 2007). Developed countries adopting performance-based budgeting included Australia and New Zealand in the late 1980s, followed by Canada, Denmark, Finland, France, Netherlands, Sweden, United Kingdom, and United States in the early to mid-1990s. Furthermore, in the late 1990s to early 2000s it was implemented in Austria, Germany and Switzerland. Meanwhile, developing countries adopting performancebased budgeting are Egypt, Nepal, Thailand, and Tanzania, including Indonesia (Ouda, 2013).

The adoption of performance-based budgeting in developed countries seems to be successful even though the methods used in performance budgeting between these countries are different (Helmuth, 2010). Unfortunately, different results are found in developing countries which show that the adoption of performance budgeting has a tendency to fail. These different results may be due to various reasons and motives for adoption. Egypt is an example of the failure of a developing country in the implementation of a performance-based budgeting, which is caused by a lack of infrastructure required to support such implementation and the unchanged traditional patterns of financial management (Ouda, 2013). The cases in Nepal and Sri Lanka also show that in less developed countries (LDCs), NPM reform, including budgeting in its implementation, has failed (Adhikari et al., 2013).

Indonesia as a developing country has adopted performance-based budgeting under the Act No. 17 of 2003 concerning State Finance. This Act is a momentum for the government to design a budgeting system, which is more effective in its allocation, more efficient, accountable, and transparent in its implementation, and prioritizes the achievement of measurable performance targets (Surianti & Dalimunthe, 2015). The implementation of performance-based budgets should be able to improve organizational performance, improve public services and link public spending to its results. The requirements and weaknesses of performance-based budgeting make its institutionalization and implementation difficult and less than optimal. The implementation of performance-based budgeting has not had a significant impact on creating maximum public services. In other words, the implementation of performance-based budgeting in Indonesia to date has not been fully successful (Wiratama et al., 2012).

Prabowo et al. (2017) examined public sector (government) reforms in Indonesia from 2003 to 2015 to test the consistency between the application of NPM principles and their implementation, found that at the implementation level, budgeting in Indonesia still uses a line item and incrementalism budgeting system pattern even though it has formally adopted the system. Performance based budgeting. The results of his research stated that this implementation experienced a symptom which was said to be a confusion and experienced inconsistencies with the NPM philosophy. Research by Indrayati (2014) found that the implementation of the formality of the Regional Income and Expenditure Budget (hereafter called as APBD) has been carried out but is still experiencing bad execution in its implementation. The obstacles faced by these regions include resistance from both the implementing apparatus and the legislature, limited human resources, and the lack of standards and references regarding APBD formulation based on performance-based budgeting.

Utari (2009) found symptoms of using traditional approaches, namely line items, incrementalism and the inclusion of performance indicators with unclear size and cost standards. In addition, inflation is seen as a triggering factor for an increase in the budget amount. In fact, Widodo (2016) showed that incrementalism still dominates in budgeting decision-making. These findings are in line with those by (Blondal et al., 2009).

The findings of the previous studies indicate that the debatable issue is that even though performance-based budgeting has been adopted for a long time in Indonesia, its implementation is characterized by traditional budgeting, namely input-based, line item, incrementalism, annual, and dynamic balanced budgeting (Taufiqurrahman, 2014). The mindset of the legacy of these old concepts is still influencing and rooted and difficult to remove, despite the constraints of human resource capabilities and supporting infrastructure.

The various arguments and above research finding simply that the adoption of performance-based budgeting in developing countries including Indonesia has not been successful. The achievements in the budgeting implementation may be carried out for a long time and take place gradually. In this early stage of implementation, the adoption of budgeting resulted in some failures, but along the way began to show progress gradually. To prove the successful implementation of performance-based budgeting, research needs to be carried out for the following years with different methods and perspectives.

This study aims to critically review previous studies and provide some future research notes on the adoption of performance-based budgets in Indonesia based on the results of previous studies. Various findings on the experiences of other countries adopting performance-based budgeting suggest that the future studies should explore the phenomena from different methods and perspectives.

Review of Previously Research

Performance budgeting has been implemented in many countries in South and Central America, Europe, Australia, and Asia under new public management initiatives, which are often called performance management or results-based management (Berry, 2008). In Asia, under the label of broader performance management initiatives, performance-based budgeting has been introduced in Japan, Malaysia, the Philippines, Singapore, South Korea, Thailand, and Indonesia during the 1998-2003 period (Koike, 2013). In the United States and United Kingdom, the initiation of performance-based budgeting can be traced back to 1949 and 1960s (Jackson, 2011).

Studies on performance-based budgeting in the public sector has been conducted by many researchers. Ouda's (2013) research focuses on the implementation of performance-based budgeting in the public sector in developing countries. His findings suggest a clear framework for implementing performance-based budgets if the implementation is to be successful in the public sector in developing countries.

Robinson & Last (2009) state that performance-based budgeting is not necessarily appropriate in a country, especially in low-income countries. Result orientation in performance budgeting demands the availability of resources and valid data to achieve it. The deficit in financing which is covered by financing receipts is mostly met from debt or loans, making it increasingly difficult for low-income countries to implement performance-based budgeting. A survey by the Organization for Economic Cooperation and Development (OECD) in 2012 found that in budget practice there was no relationship between expenditure and performance (Schick, 2013). This means that the performance aspect has not really become the basis for performance-based budgeting. In fact, in performance-based budgeting, expenditures should be linked to

performance shown by performance indicators and benchmarks such as inputs, outputs and outcomes, even benefits and impacts. The challenge faced by governments is to use performance information in the budget processes and budget allocations. Schick (2007) argues that if performance-based budgeting is defined as a budget system that formally links increases in spending to increases in results, only a few governments would qualify as having systems that conform with this definition.

The adoption of performance-based budgeting can be explained by institutional theory. The institutional theory of its core idea is the formation of an organization due to the pressure of the institutional environment that causes institutionalization. Zucker (1987) stated that ideas in the institutional environment form language and symbols that explain the existence of an organization and are taken for granted as norms in the organizational concept. The existence of an organization occurs in a broad organizational scope where each organization influences other forms of organization through the process of adoption or institutionalization.

Basically, institutional theory is based on the idea of survival, where an organization must be able to convince the public that the organization is a legitimate entity and deserves to be supported (Meyer & Rowan, 1977). Scott (2008) explains that institutional theory serves to provide an explanation for actions and decision making in an organization.

Di Maggio & Powell (1983) in terms of organizational change call it a process of imitation or adoption of an organization's mimetics against other organizational elements. Furthermore, Di Maggio & Powell (1983) insist that organizations are formed by the institutional environment around them. Influential ideas are then institutionalized and considered legitimate and accepted as the organizational way of thinking. The process of legitimacy is often exercised by organizations through state pressure and statements. Institutional theory is known for its assertion of organization only as symbols and rituals. Another perspective is offered by Meyer & Scott (1983) who claim that organizations are under pressure from various social forces to complete and harmonize a structure, organizations must compromise and maintain separate operational structures, because the organizational structure is not determined by the situation of the task environment, but more influenced by the situation of society in general where the form of an organization is determined by the legitimacy, effectiveness and rationality of society.

The important aspect of institutional theory lies in the paradigm of norms and legitimacy, ways of thinking and all sociocultural phenomena that are consistent with technical instruments in organizations. DiMaggio & Powell (1983) see that organizations are formed because of forces outside the organization that form through the process of mimicry or imitation and compliance. Another contributor to this theory is Meyer & Scott (1983) which state that organizations are under pressure to create social forms that are only formed by conformity approaches and contain separate structures at the operational level.

DiMaggio & Powell (1983) offer three institutional isomorphism formations. Firstly, coercive isomorphism indicates that an organization takes several forms or adopts other organizations due to pressures from the state and other organizations or the wider society (when the organization is forced to adopt a structure or rules). Second one is mimetic isomorphism, the imitation of an organization by another organization (when organizations copy or imitate other organizations, it is usually due to uncertainty). The last one is normative isomorphism, which is based on professional demands (when people adopt various forms because of the professional demands of the organization while claiming that they are superior).

Meanwhile, another concept in institutional theory according to Meyer & Scott (1983) is loose-coupling, namely institutional theory taking its place as an open system. An organization

(to be more advanced and accepted) should be opened to accept a concept, idea, and system that is deemed appropriate to the organization. But often the selection and application of these concepts is not appropriate at the implementation stage. Decoupling is a mismatch between the chosen concept and its implementation, due to various things affecting it. The decoupling phenomenon in the form of an unsynchronized performance as a performance budget objective with the implementation of a performance-based budget indicates the potential for less success in its implementation (Helmuth, 2010).

Hawkesworth et al. (2013) stated that performance-based budgeting offers two potential benefits to government, firstly establishing a clear link between public funding allocations and government priorities, and secondly the possibility of saving basic expenditures through increased efficiency. Although there is no standard definition of performance-based budgeting, the definition generally includes concern with the use of performance information in the budget process and budget allocation (OECD, 2007). The performance information referred to includes input, output, outcome benefit and impact on activities and programs. A number of research studies have provided insight into the use of performance information in budgeting. Behn (2003) proposes that performance information can be used for eight managerial purposes, one of which is budgeting, the other seven are evaluating, controlling, motivating, promoting, coordinating, learning, and achieving goals.

Melkers & Willoughby (2005) examined the impact of performance information on budget decision making and other operations from survey data on administrators and budgeting on local governments in the US. They found that respondents doubted the effectiveness of performance information for budget purposes such as changing allocation levels, reducing ineffective programs, or reducing repeat services. In contrast to other studies, Ho (2011) examined the implications of performance information at the sub-departmental program level in the US city of Indianapolis and found that performance measures were positively associated with changes in intra-departmental program budgets. Joyce (2011) argues that the availability of performance information does not automatically affect allocations because the budgeting process involves a political process. Countries that are in the early stages of developing performance-based budgeting tend to use performance information only for background or preliminary information (Currstine, 2005).

The case in Indonesia, based on evidence from research results, shows that obstacles in the implementation of performance budgets occur due to irregularities in the budget sector, which are still practiced by the executive and legislative branches and occur at various stages of the budget preparation and implementation process. This takes the form of irregularities which are budgetary fraud and abuse, and which violate the concept of the performance budget. Irregularities that are corrupt in nature include the occurrence of corruption, mark-ups, and bribery in the budget (Yuhertiana et al., 2015). Meanwhile, deviations that violate the concept of performance-based budgeting are inconsistencies between concepts/rules and their implementation. These deviations include unclear targets, inadequate performance indicators, and inappropriate budgeting process time (Madjid & Ashari, 2013). The study also found an inconsistency between planning and budgeting, even though it had fulfilled the completeness of the budget document.

In addition, in budget implementation there is often a tug of war for the interests of various parties. Related parties are actively trying to harmonize the various interests that exist. This phenomenon of interest harmonization occurs when there is fear and distrust as a result of the complexity of the influence of the central government through regulations and policies.

Efforts to harmonize these interests can be described through managing public legitimacy, using procedural-based controls, and managing relationships of trust and power (Utomo, 2015).

Bawono (2015) examined the implementation of local government performance-based budgets in Indonesia. This study produces four (4) findings. First, the main motivation for implementing performance-based budgeting in Indonesia requires encouragement from officials and support from the World Bank to modernize the financial and reporting systems. Second, the importance of harmonization between planning, budgeting and accounting. Third, the Luder FMR Model (2013) framework is useful for identifying key factors in implementing performance based budgeting in local governments in Indonesia. Finally, poor performance after implementation of performance-based budgets was identified because budget reform was part of a cosmetic.

Changes in policies for implementing performance-based budgets in several regions in Indonesia only occur at the level of technical and format changes, but changes in the paradigm have not occurred (Rahayu et al., 2007). Although officials and leaders understand the meaning of performance-based budgeting, Widiatoro's study (2009) concludes that performance-based budgeting in an organization has not been achieved, that is, there are errors in the stages of the budgeting process including planning, implementation, measurement, performance evaluation and reporting.

The research that has been mentioned above shows that the adoption of performance-based budgeting in a country produces various findings with various obstacles that arise. The successes and failures of the adoption of performance-based budgeting in various countries are due to different factors. Research on performance-based budgeting in Indonesia also shows mixed results. Research results like this are a note for further research.

Notes to Future Research

The adoption of performance-based budgeting in developed countries shows that there is a tendency to succeed, even though the methods used in performance budgeting between these countries are different (Helmuth, 2010). In contrast, different results emerge in developing countries which show that the adoption of performance budgeting has a tendency to fail. These different results may be due to various reasons and motives for adoption. Budget reform motives vary from many countries, such as the consequences of the financial crisis, pressure to reduce public spending, and demands for changes in public administration (OECD, 2007). It has been argued that performance-based budgeting is easy to explain but difficult to implement (Schick, 2007).

The results of several studies above show the diversity and contradiction in the views of different subjects and objects. This is an opportunity and a challenge for further research. The research method used by the researchers is divided into two approaches, namely the quantitative (positivism) and qualitative approaches. Quantitative research methods use numerical data and emphasize the research process on measuring objective results using statistical analysis. The focus of quantitative methods is to collect data sets and generalize to explain specific phenomena experienced by the population. The purpose of quantitative research is to determine the relationship between variables in a population. The advantage of qualitative methods is that they support macro-scoped social science studies because they can involve a large number of research subjects. The number of subjects, either individuals or groups involved, supports the generalization process and has the supports to achieve the objectivity of research results. In

general, quantitative research is designed to produce general explanations of a phenomenon. To get this general explanation, several variables are used.

Besides having several advantages, quantitative methods have disadvantages, namely that they often ignore the details of the social context in research, the approach is static and rigid so that it is not flexible when the researcher is in the location, there is potential for structural bias, the formulation of problems as a rule reflects the interests of the researchers, does not take into account the actual problem of research findings often lack detail to explain individual behavior and motivational behavior. In addition, researchers can only collect limited and superficial data. Results from quantitative studies have limited explanations for the quality of numerical descriptions and the lack of detail in processing aspects of human perception and research results are more likely to describe laboratory results than actual results from field operations.

Roekhudin (2013) states that the research method developed in the positivistic (quantitative) realm sees the phenomenon of social reality as a single, static, and concrete thing, which can be understood because the quantitative research paradigm is developed from the basis of natural sciences research which later in their development were widely adopted by research methods in the realm of social and humanities sciences. To reveal in depth the form and meaning of the essence of the implementation of performance-based budgets, capturing, and simultaneously uncovering the developing phenomena, it is not enough to just investigate using a survey database. Qualitative choice as a research method to reveal the understanding, meaning, and behavior of actors involved in the implementation of performance-based budgeting is the most appropriate to answer this phenomenon. Thus qualitative methods can provide complex details that are difficult to reveal by quantitative methods.

Qualitative research has an urgency that stems from the reasons for the roles of actors being investigated in depth and the processes for understanding and leading to certain results. Qualitative research is designed to describe a research work carried out in understanding the socially constructed meanings of individuals in their interactions with their world. Merriam (2002) states that qualitative research views that the world or reality is not a phenomenon that is fixed, single, consensual or there must be a certain measure and generalization like what is in positivistic research. Qualitative research will see a phenomenon as something holistic and flexible towards a phenomenon, especially in socially constructed phenomena.

Research that uses a qualitative approach aims to understand an interaction and social reality, namely seeing the world as it is, not what it should be. The implementation of performance-based budgeting is a product of interaction and social reality. Immanuel Kant argues that there are two types of reality, namely the world of phenomena and the world of noumena (Robinson, 2019). Phenomenon is a rational world that can be experienced and felt by the five senses, where it is rational, so it is very open to empirical scientific research. While noumena is a world that is neither physical nor empirical, therefore it cannot be approached through empirical observation. Science is a perspective that makes researchers sensitive to natural parts of the world, namely phenomena, but that perspective does not make humans sensitive to things outside of phenomena, even though the existence of these things in everyday life becomes important, sometimes even more dominating (Salim, 2001). Banister et al. (1994) added that the essence of phenomena is usually not above the surface, but under the surface or hidden. Every individual who interprets a phenomenon does not necessarily explain that meaning.

Humans are basically bound by natural laws and it is very possible open to scientific investigation and natural causes on the side of phenomena. Humans on the other hand are

noumena because they have a soul that has free will in forming a social reality. Observation and investigation of a group of people (society) is not enough to depend on an approach that is only able to measure their external behavior (quantitative approach), let alone using certain measurements and limitations. Elements such as awareness, attitude, willingness, behavior, motivation, response to something and others cannot be captured and revealed using this quantitative approach, so a qualitative approach is needed as an alternative. The hope is that the phenomenon in the implementation of performance-based budgets that cannot be uncovered with a quantitative approach can be uncovered with a qualitative approach. The main mission of the modern social science discipline is to seek analysis and understanding of the patterned behavior and social processes of society. This mission is built on the assumption that social researchers have the ability to observe the world objectively. The history of qualitative research is capable of fulfilling this mission.

The essence of using qualitative methods is to understand. Understanding what is meant is understanding something that can mean many things such as understanding what is felt, understanding thought patterns, understanding experiences, opinions and points of view of a certain person/actor or group of people (community) in a natural setting (Herdiansyah, 2012). Qualitative methods are often referred to as naturalistic methods, because they are carried out in conditions of natural social reality. This method views social reality and humanities as something that is comprehensive, intact, dynamic, complex and full of meaning. Researchers will not manipulate the object of research, because the object of research is natural as it is.

Qualitative research with all its characteristics is able to reveal the veil and capture what is interpreted by individuals/groups, so that these meanings can be understood more easily and simply (Herdiansyah, 2012). Through qualitative research it is believed that a rich description of the social world is of great value. The object of research in the form of social humanities is believed to be a rich description of the social world which is very valuable if investigated by qualitative research methods. This method is able to present a different side of social research, because it is able to provide a distinctive, unique and interesting in understanding social reality. Therefore, a qualitative approach is believed to obtain more nuanced information such as paintings with various perspectives.

The qualitative method approach has the ability to build a world of reality so that it is closer to the empirical world. As a tool for interpreting social phenomena, qualitative research has a variety of methodologies, such as narrative, interpretive, ethnographic, phenomenological, grounded theory, hermeneutic, case studies and others. No method is considered superior, and no technique can be eliminated. Each research method and strategy has its own characteristics from each discipline (Robinson, 2019). A qualitative research can also make it possible to combine one method with another.

CONCLUSION AND SUGGESTION

Reform and the adoption of performance-based budgeting in the government in Indonesia has been going on for almost two decades, but in its implementation there are still obstacles and have not yet produced optimal results. The decoupling between concept and implementation, the achievement of the expected performance has not been achieved, and the understanding of actors involved in implementing performance-based budgets shows that this budget concept is supposed to make organizational performance better, but in fact there are still many shortcomings. Therefore it is necessary to conduct further research to explore and find answers

to what causes the emergence of this phenomenon and how the implementation of performance-based budgeting in Indonesia.

The use of quantitative (positivistic) research methods has not been able to analyze and conclude the cases that exist in organization. Sharpness in quantitative analysis methods has not been able to uncover problems that exist in organizations, especially in exploring human causes and effects or in generalizing cases to draw conclusions in a theory. All quantitative researchers emphasize numbers more than anything else. That is, numbers come to represent the value and theoretical level of constructs and the concepts and interpretations of these numbers are seen as solid scientific evidence of how phenomena work. Most quantitative researchers use statistical tools and software packages to analyze data.

Suggestions for further research use a qualitative approach which is an in-depth effort, intended to reveal the essence of the meaning behind the actual reality of the implementation of performance-based budgets from the perspective of the actors. The disclosure of the meaning makes it possible to generate new knowledge about the causes of failure and delays in the acceleration of performance-based budget implementation from the perspective of the actors so that the findings are more contextual according to the experience of the actors. This effort is difficult to research and find when using quantitative research. Although this research is based on literature review, it will at least compare and contrast various research results as motivation, encouragement and a basis for further research on performance-based budgeting.

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