

# THE EFFECT OF DECENTRALIZATION, ENVIRONMENTAL UNCERTAINTY AND ACCOUNTING CONTROL ON MANAGERIAL PERFORMANCE OF PUBLIC SECTOR: A PROPOSED FRAMEWORK

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## ABSTRACT

*The consequences of the government to determine decentralization, environmental uncertainty, accounting control, one of which is by implementing regional autonomy, providing opportunities and opportunities for regions to manage their own regions, as well as structuring the concept of development both in the short and long term. All of this can be related to managerial performance of district government. Thus, the motivation of this study is to conduct research leads to the effect of decentralization, environmental uncertainty, and accounting controls on managerial performance in a conceptual framework. The objective of this research is to conceptually find out and empirically based evidence regarding the effect of decentralization, environmental uncertainty, and accounting controls on managerial performance. The results can provide value to implementation in the region, as well as understanding managerial performance that is currently being carried out.*

**Keywords:** Decentralization, Environmental Uncertainty, Accounting Control, Managerial Performance, Public Sector, Proposed Framework.

## INTRODUCTION

Organizations both private and public sector, top management delegates some of its authority to the management under them. The delegation of authority is accompanied by the allocation of resources needed in the implementation of the authority. The use of authority and the consumption of resources for the exercise of this authority are accounted for through the form of performance measurement. Based on the results of this performance appraisal, top management provides an assessment of the performance of lower management. From this explanation, it can be said that the difference between decentralization and, environmental uncertainty and accounting controls will lead to different information needs. If the organization has a high level of decentralization, environmental uncertainty, and accounting control, it should also be supported by a reliable accounting information system, which is a synergy that can improve managerial performance (Chia, 1995).

The issue in this study is based on the assumption that the performance of civil servants in government organizations has not met the expectations of society. In 1999, the government issued Law no. 22 and No. 25 challenges to Regional Autonomy and Fiscal Balance between Central and Regional Governments, amended into Law no. 32 and No. 33 of 2004. During the 7 years following the reformation, there have been two changes to the law on regional government. When examined further, the change in the law is nothing but a desire to improve the performance of local governments.

This study is a replication of Miah & Mia's (1996) research and Gul & Chia's (1994) research on the effect of decentralization, accounting control and government performance

and the effect of management accounting systems, perceptions of environmental uncertainty, and decentralization on performance management. Several previous studies on this issue have also found that there is no consistent evidence in the findings regarding the effect of decentralization on managerial performance, such as Chenhall & Morris (1986) and Gordon & Narayanan's (1984) research. Gordon & Narayanan's (1984) research takes a sample of which the participants are company presidents, and financial controllers. The findings have no effect between accounting information systems and organizational structure. Meanwhile, Chenhall & Morris (1986) took participants through their study who were managers at the middle and lower levels of the organization. It was found that there is a positive influence between the accounting information system and the lower-level position of the organizational hierarchy.

In Indonesia, research conducted by Nazaruddin (1998), shows that decentralization interacts with the information characteristics of the management accounting system affecting the occurrence of positive performance improvements. The difference with the research that will be conducted is on the environmental uncertainty variable as a new variable to see the relationship between decentralization and managerial performance. Another study that explains the influence of environmental dynamics on the accounting control system/accounting control was carried out by Syafruddin (2001). The finding is that managerial performance as the dependent variable is influenced by moderating environmental dynamics and accounting control systems, namely the higher the dynamics of the environment, the higher the accounting control system and organizational performance. The difference with the research that will be carried out is by adding a decentralized variable as an independent variable.

## LITERATURE REVIEW

### Public Sector Performance Measurement

Measuring the success of the public sector is not as easy as determining the success of a business enterprise. To measure whether or not a public sector organization needs to know the following important things: what will actually be measured, what scale or measure will be used, what is the acceptable error tolerance, who will measure it, for whom the performance information is and what will they be used for. Do with that performance result report? According to (Flynn, 2002) the performance of public sector organizations and the development of services to the community is influenced by two elements, namely skills, the effort and motivation of people to enable them to work within the organizational structure better. Performance measurement in public organizations is closely related to the accountability and performance of the agency concerned. To see the degree of accountability of the public bureaucracy, it is necessary to have performance standards that must be agreed upon in advance regarding information on public sector performance and reporting standards.

Measuring the performance of public organizations must be done with evaluation activities. Performance evaluation is an activity to assess or see the success and failure of an organization or work unit in carrying out the tasks and functions assigned to it. Therefore, performance evaluation is an analysis and interpretation of the success and failure of performance achievement. New evaluation activities can be carried out when the performance measurement activities have been completed. Mahmudi (2005) suggests that the purpose of evaluating the performance of the public sector is to determine the level of achievement of organizational goals, to provide learning facilities for employees, to improve the performance of the next period, to provide systematic consideration for decision making, to motivate employees, and to create public accountability. Performance appraisal serves as a milestone

(mile stone) that indicates the level. Achievement of goals and also shows whether the organization is running in accordance with the direction or deviating from the set goals. If there is a deviation from the proper direction, the leadership can quickly take corrective and corrective actions. From an internal control perspective, performance measurement systems are designed to monitor the implementation of organizational plans, determine when the plans are successful and how to improve them (Kloot, 1999). Performance measurement systems are used to focus attention on achieving organizational goals, measure and report performance, and to understand how performance processes affect organizational learning. Performance measurement is also used to identify problems related to the organization's operations, which can be overcome by adjusting existing processes, and indicate more fundamental problems that require adjustments to the organization's strategy.

### **Environmental Uncertainty**

Environmental uncertainty can be defined as an individual's sense of inability to predict something accurately (Milliken, 1987). Someone experiences uncertainty because they feel they do not have enough information to predict accurately, or because they feel unable to distinguish between relevant data and irrelevant data. The environment will affect the life of the organization, because in a stable organizational environment the planning and control process does not face many problems, but in uncertain conditions the planning and control process will become more difficult and many face problems because future events are difficult to predict.

The environmental uncertainty felt by a leader (manager) according to Milliken (1987) is if managers are exposed to environmental uncertainty through their organization or especially the components in their environment that are unpredictable, and they feel uncertain about the relevant actions taken with respect to the stakeholders. Parties related to it (constituencies) such as: suppliers, competitors, consumers, stakeholders. Furthermore, Milliken (1987) identified three types of environmental uncertainty, namely: state uncertainty, effect uncertainty, and response uncertainty.

State uncertainty occurs when someone feels that the organizational environment is unpredictable, meaning that they do not understand how the environmental components will change. A manager may feel uncertain about what actions to take to deal with the dynamics of suppliers, competitors, customers, consumers and so on, or a manager may feel uncertain about the possibility of relevant environmental changes, such as changes in technology, culture, demographics and others.

### **Decentralization**

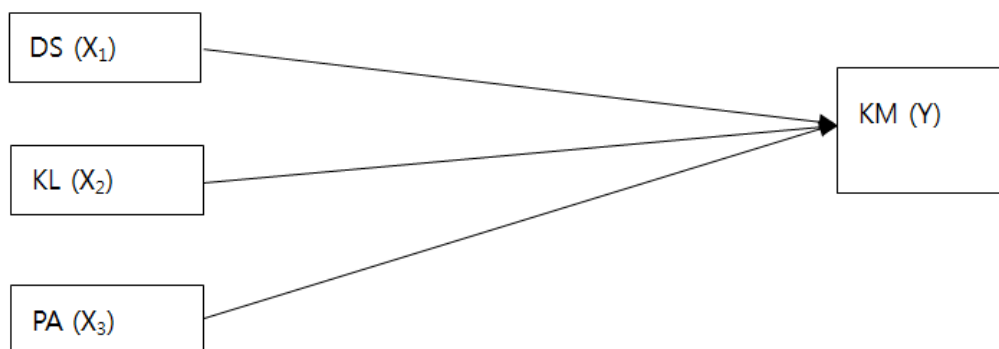
Delegating authority from top-level management to organizational units that become subordinates is one way that is often used to control organizational activities. Decentralization by providing accountability for various tasks to lower-level managers is an organizational mechanism that can ensure that tasks can be carried out and organizational goals will be achieved. The manager of the responsibility center (organizational unit) can be given clear targets on the range of his duties and be responsible for all aspects of his responsibilities. The organization must delegate some of its decision-making authority to lower-level managers. Miah & Mia, (1996) suggest that the choice of structure of an organization has significant implications for accounting information systems when the system must help unit managers to make decisions and take action to achieve organizational goals.

According to Chenhall & Morris (1986) broad scope information, aggregated information is also associated with higher performance. This is because unit managers in an

organization prefer to be evaluated with aggregate performance measures which reflect their area of responsibility. Furthermore, he explained that conventional accounting evaluation measures that do not reflect autonomy and integration with one another will result in lower morale and increased conflict for division/unit activities.

## RESEARCH METHODS

The research method used in this research is explanatory research. Explanatory research is a type of research that seeks to explain the causal relationship between several variables. This study will explain the causal relationship between the variables of decentralization, environmental uncertainty and accounting controls on managerial performance. In general, research that uses hypotheses usually tries to explain certain relationship variables or make differences between groups or the independence of two or more factors in a situation in Figure 1.



**Figure 1**  
**CONCEPTUAL MODEL**

Information:

DS = Decentralization (X<sub>1</sub>)

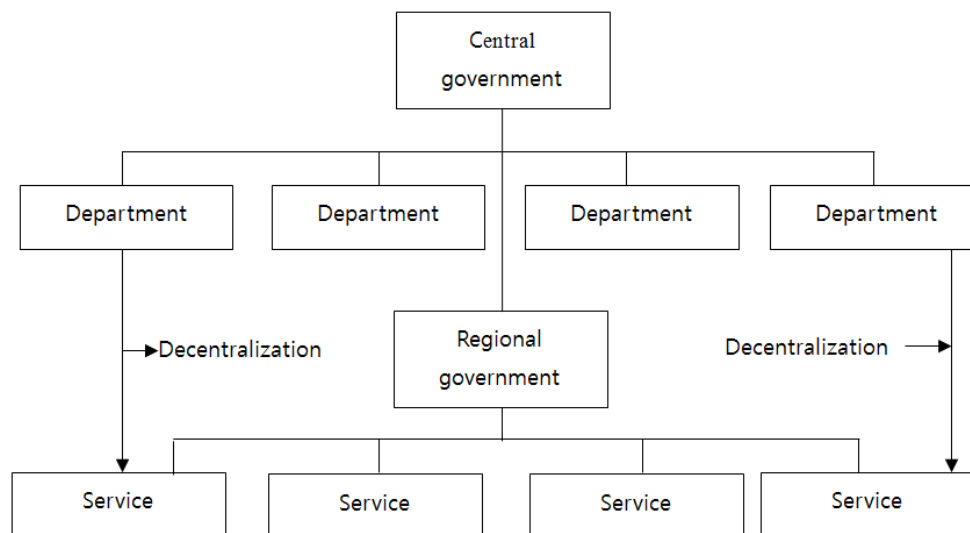
KL = Environmental Uncertainty (X<sub>2</sub>)

PA = Accounting Control (X<sub>3</sub>)

KM = Managerial Performance (Y)

## RESULTS

Organizational structure has an important role in influencing performance at the organizational and sub-unit levels of local governments. This effect occurs because with decentralization, policy making is carried out by managers who better understand the condition of the unit they lead so that the quality of policies is expected to be better so that performance increases in Figure 2.



Source: self-processed

**Figure 2**  
**LOCAL GOVERNMENTS**

The implementation of decentralization in Indonesia so far refers to Law No. 5 of 1974. Delegation of government tasks from local department to district government. After the reformation, the implementation of decentralization was regulated by Law No. 22 of 1999, which has been changed to Law No. 32 of 2004. Based on Figure 1, it can be seen the delegation of authority over government tasks from the central government/departments to the district government through the respective office. Decentralization can be divided into two types

The first is deconcentration (*deconcentratie*) or "*ambtelijke decentralisatie*". It is the delegation of power and state equipment at the top level to their subordinates in order to facilitate work to carry out government duties, for example the delegation of power and authority of ministers to governors, and governors to regents/mayors and so on.

The second is State administrative decentralization (*staatkundige decentralisatie*) or also called political decentralization, namely the delegation of legislative power from autonomous regions in their environment.

There are several reasons for an organization to establish a decentralized structure. Decentralization will give top management more time in making long-term strategic decisions than operating decisions. Decentralization can make organizations respond more quickly and effectively. So, it is not possible to get all complex information needs to make optimal decisions. In a centralized system it is not possible to get all complex information needs to make optimal decisions. Decentralization will produce a good training base for future manager level candidates and decentralization fulfills the need for autonomy and thus becomes a powerful motivational tool for managers (Thompson & Strickland, 1987).

Miah & Mia (1996), stated that the delegation of decision making to managers should include (1) authority and responsibility for decision-making on financial matters (eg replacement of office inventory); (2) authority and responsibility to make decisions on issues related to day-to-day operations (such as purchasing office equipment); (3) authority and responsibility to make decisions on issues related to staff training and development; (4) authority and responsibility to make decisions on issues related to the allocation of resources or funds (e.g. salaries, overtime, repairs and maintenance); (5) authority and responsibility to make decisions on matters related to personnel (e.g. withdrawal, promotion and dismissal of employees).

This research is conducted on local government organizations. Local government as a form of organization has a purpose that has been formulated as an assignment from the organization's vision and mission. To achieve this goal, according to Mardiasmo (2000), it is necessary to formulate a strategy that is carried out economically, efficiently, and effectively. To ensure the above, an effective control system is needed. Public sector organizations because of their nature not pursuing profit and having great political influence, the control tool is more in the form of bureaucratic regulations. One of them is decentralization, environmental uncertainty and accounting controls on managerial performance.

Decentralization relates to the degree of autonomy to make decisions that are delegated from top-level managers to lower-level managers for an organization. The importance of decentralization as an element of the formal structure has long been the focus of attention in the organizational and management literature. Gordon & Miller (1976) suggest that with increasing administrative complexity, tasks and responsibilities should be delegated to lower management levels to ease the burden of decision making at higher management levels. A situation where decision-making is decentralized, subordinate managers consider the role of decision-making and implementation to be their responsibility for the sub-units they lead.

According to Ferris (1977) environmental uncertainty is a perception of events (perceptual phenomenon), which is felt by someone to predict something accurately. uncertainty because someone feels they don't have enough information to predict accurately, or because someone feels unable to distinguish between relevant data and irrelevant data. The environment will affect the life of the organization, because in a stable organizational environment the planning and control process does not face many problems, but in uncertain conditions the planning and control process will become more difficult and many face problems because future events are difficult to predict.

Performance measurement is a tool to assess organizational success. Through the context of public sector organizations, the success of the organization will be used to gain legitimacy and public support. The success of public sector organizations is assessed through the organization's ability to provide relatively cheap and quality public services. Miah & Mia's (1996) research, wants to examine the level of decentralization (granting authority) and accounting control on managerial performance, accounting control variables can mediate improving the performance of local government offices. The greater the use of the accounting control system, the better the performance of the local government. The variables used are decentralization (X1), accounting control system (X2), and managerial performance (Y). As a result, decentralization has a positive effect on local government performance, but no direct effect was found between decentralization and performance. Accounting control systems that facilitate the success of decentralization policies at lower organizational levels, from accounting control systems can assist managers in making the right decisions without having to wait for clarification or explanation from the central government.

## CONCLUSION

The results indicate that several previous studies on the effect of decentralization, accounting control and government performance, are considered to conceptually provide an overview of district government. This study conceptually re-examined the previous studies, insights as a form of replication of existing research, by adding some conceptual consideration of independent variable of environmental uncertainty to three independent variables of decentralization, environmental uncertainty and accounting control with one dependent variable managerial performance. The results also showed that control systems that use accounting information are referred to as accounting-based control systems or

accounting control systems. Accounting control system is a formal accounting-based control system used by organizations to carry out activities for the purpose of achieving organizational goals in public sector context.

There are several contributions that are expected to be obtained from this research. Theoretical contribution of this study is expected to provide additional empirical evidence regarding the effect of decentralization, environmental uncertainty and accounting controls on managerial performance. Practical contribution is to contribute ideas to local governments, especially for designers of public sector organizations so that they are able to carry out an integrated approach according to the planning of the control system of public sector organizations. In term of policy contribution, the results of this research are indirectly expected to provide additional information for the Jayapura district government to be able to implement decentralization more effectively and efficiently.

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