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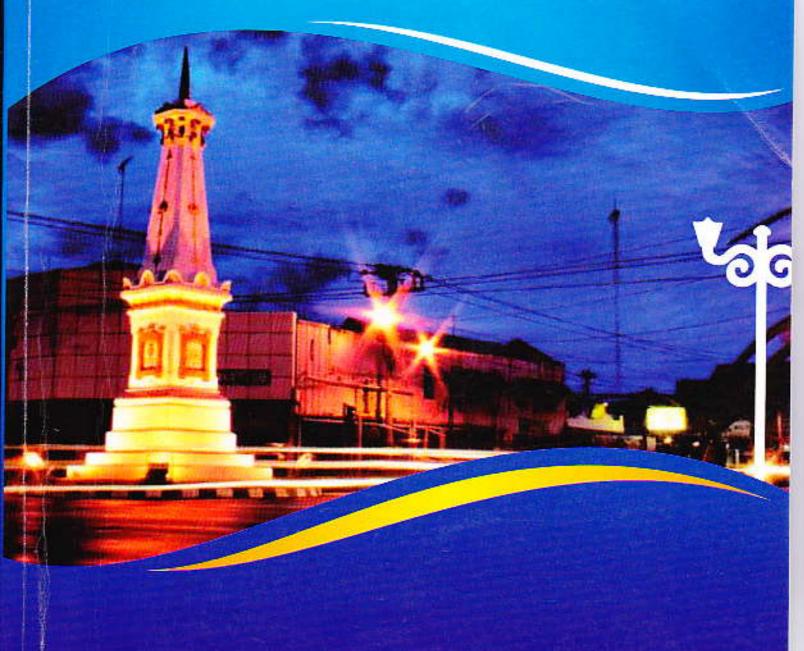
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"Challenges of the Adoption of International Financial Reporting Standards (IFRS) in South East Asia"

PROCEEDING
INTERNATIONAL CONFERENCE ON ACCOUNTING AND FINANCE
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"Challenges of the Adoption of International Financial Reporting Standards (IFRS) in South East Asia"

PROGRAM STUDI AKUNTANSI FAKULTAS EKONOMI
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2015

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DAFTAR ISI

GOOD GOVERNANCE GOVERNMENT AND REGIONAL GOVERNMENT PERFORMANCE OF DEPOK CITY, INDONESIA
(Survey to all Local Government Institution at Depok City , West Java Province)

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ABSTRACT

This study aims to investigate the effect of good governance government consists of participation, rule of law, transparency, responsiveness,consensus orientation , equity, efficiency and effectiveness, accountability and performance of local government at Depok City. Itis used survey by distributing questionnaire to government officers an Depok City to collect primary data. Technical analysis is conducted by validity and reliability test, correlation rank spearman, simple linier regression, determination and hypothesis test. The result of analysis can be concluded thatgood governance government consist of participation, rule of law, transparancy, responsiveness, consensus orientation, equity, efficiency and effectiveness, accountability andgood governance government impact on performance at local government of Depok City.

Key Word : Good Governance Government, Performance

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Abstract

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1. Introduction

The government reformation provides a new regulation which is available to manage good financial governance, relation of central government and local government, and good natural resource governance to support public welfare. As a consequence, the government officers as actors who build, manage and serve the public have to improve their performance. Based on the above challenge the government reforms the act no. 22 year 1999 about local government and launch a new act no. 32 year 2004 to build good governance. The act involves public participation and rigid hierarchical job description between province government and city/regency government.

Another rule based on President Instruction no.7 year 1999 about accountability of government performance to create professional, efficient, and effective of state administrative system. It aims to improve performance for central government and local government, state corporation, and other public sector. Moreover, it supports to provide sector public organization management system based on performance. And then, president instruction no.8 year 2006 states that each government institution both central and local are compulsory to report their performance and send them maximum two months after the end of budget year.

Finally, the government launches president instruction no. 6 year 2008 about evaluation guidance of local government as key leverage to enhance local government capacity. It describes the government compulsory to follow up the result of performance evaluation by implementing several programs to provide capacity building. Local government also has authority to manage its government associated with autonomy act and has a new task to supervise and to avoid fraud of the public fund.

Renyowijoyo (2008:18-19) to provide good governance is not easy, it requires good communication between central government and local government. Supervision by central government to local government should be supported by government itself as executive, house representative as legislative and also nongovernmental organization. The government should have a full trust from the public in order to provide public service

satisfaction and to build clean government officer which is far from corruption, collusion, and nepotism. And then, Bastian (2006:274) described performance as achievement of program activity or implementation to reach the objective, mission, and vision of organization.

The bar chart below shows the percentage of financial report at Depok City. It is a performance measurement which describes realization report of income and expense between 2007, 2008, 2009 and 2010:

Source: Firda Wijayanti & PPAS Depok City Government

Figure 1.1
Pie Chart of the Percentage of Income and Expense Realization Report

The data above shows that the government performance of Depok City is fluctuate from 2007 to 2010 so that it is necessary to improve its performance.

Based on the above phenomena and previous studies, it is crucial to investigate good governance government contains participation, rule of law, transparancy, responsiveness, consensus orientation, equity, efficiency and effectiveness, accountability, and Government Performance at Depok City.

2. Research Objective

The study aims to analysis good governance government consists of participation, rule of law, transparency, responsiveness, consensus orientation, equity, efficiency and effectiveness, accountability impact on government performance at Depok City.

3. Research Contribution
a) Theoretical Contribution

This study contributes knowledge and improve the theory in Sector Public Accounting, particularly the effect of good governance government to government performance at Depok City.

b) Practical Contribution

This study contributes to Government of Depok City especially as a new insight to increase government performance based on good governance government.

4. Literature Review

a. *Good Governance*

Good governance as hope by the public due to its impact on social welfare as recommendation of UUD 1945 Preface. Renyowijoyo (2008:18-19) describes *governance* is how to manage public affairs. In addition, *World Bank* defines governance:*"the way state power is used in managing economic and social resources for development of society"*. Another definition stated by *United Nation Development Program* (UNDP) *governance*: *"the exercise of political, economics and administrative authority to manage a nation's affair at all levels"*. Agustino (2007:182) stated that *good governance* has two notions, first is a value represents public hopes to increase public competency as national aim to build independency, development sustainability, and social justice; second, effectively and efficiency of government function to implement its task to achieve the target. Furthermore, *governance* means *"the act, fact, manner of governing"*. Alamsyah cites Kennet article (2008:3-6) the exercise of political power is practiced by new order includes the term of government. It is indicated by domination of government actor, strict differentiation between public sector and private sector, hierarchical process, and top-down decision making. Nevertheless, style of new governance government is commonly called governance. Its characteristic are process of governance involves many actors, but no dominant actors, authority is not hierarchical but it tends to network, border between public sector and private sector is unclear. Sulistiyani (2011:22) associated with good governance said that government is playing the role as facilitator and catalyst. The task is to advance state development participated by all component both business actors and society. In this case, World Bank tends to focus on the way how government manages social and economy resources to fulfill public aspiration. Moreover, United Nation Development Program (UNDP) focuses on politic, economy, and administrative aspect to govern the state. Several aspects proposed by United Nation Development Program (UNDP) in governing government are as follows:

1. Political governance is associated with policy/strategy formulation.
2. Economic governance is process of decision making in economy impact on proportional, poverty reduction, and quality of life increase.
3. Administrative governance is a system of policy implementation.

Furthermore, *World Bank* and UNDP, conclude that *good governance* is the government which has sense of responsibility with its program implemented, manage resource based on public needs and wants, divide income proportionally, and prevent corruption both in politic and administrative.

b. Eight Characteristics of *Good Governance* according to *United Nation Development Program* (UNDP)

To build good governance, government must understand the characteristics of state to become *good governance*. Renyowijoyo (2008:19-20) showed eight characteristics *Good Governance* based on *United Nation Development Program* (UNDP) as follows :

1. *Participation.*
Support people involvement in making decision both directly and indirectly through representative institution to deliver their aspiration. The participation is built based on freedom of association and constructive participation.

2. *Rule of Law.*
Justice Law framework is implemented without discrimination.

3. *Transparency.*

   Transparency is built based on freedom of receiving information directly associated with public needs and wants.

4. *Responsiveness.*

   Public Institutions should be fast service and responsive to *stakeholder*.

5. *Consensus orientation.*

   It is orientated to the society widely.

6. *Equity.*

   Each society has the same opportunity to have fairness and justice.

7. *Efficiency and Effectiveness.*

   Management of public resource can be implemented efficiently and effectively.

8. *Accountability.*

   Accountability each activity implemented to the public.

   Strategic Vision Governance government and public should have prospective future vision. Based on the eight characteristics, at least three of them can be implemented by public sector accounting namely transparency, public accountability, and *value for money* (*economy, efficiency, and effectiveness*).

c. **Performance**

   An organization can be measured of its success in achieving its goal based on performance which is implemented in certain time. Bastian (2006: 274) stated that performance is achievement description of activity/program/policy in building target, objective mission as well as vision of organization. Rivai and Sagala (2011:548) defines that performance is a function of motivation and capability. Performance is a real behavior performed by individual as job achievement. It is provided by an employee related with its role in the organization. Other definition says *performance* is an achievement level of program activity description or policy implementation to reach the target, objective, vision, and mission in organization. It is commonly stated in strategic plan of an organization. Moeheriono (2009:60); Soleh and Suripto (2011:3) concluded from several definitions that performance is an achievement of program implementation of organization in certain period. In measuring success or failure of organization requires all activities that can be recorded and measured. The measurement is conducted not only to input but also to output of the program.

d. **Objective or benefit of performance measurement**

   According to Bastian (2006: 275) performance measurement is management of performance achievement. Sustain measurement performance will provide feedback so that continuous improvement efforts are needed to achieve success in the future. Activity and program of organization should be available to be measured and evaluated. The performance measurement is management tool used for:

1. Convince to worker understanding and measure performance achievement.
2. Convince performance achievement as stated in agreement.
3. Monitor and evaluate performance implementation, then compare to job scheme and finally act to improve performance.
4. Give reward and punishment fairly to performance achievement after comparing to job scheme based on performance indicator.
5. Provide mediator tool of communication between employee and leader to improve organization performance.

6. Identify whether it has fulfill consumer satisfaction.
7. Help to understand activity process of government institution.
8. Convince that decision making is conducted objectively.
9. Show level of achievement should be conducted
10. Disclose all evident happen.

e. Principal to choose performance measurement

An organization should have principal to choose method to measure performance of its achievement. Bastian (2006:276) described several requirements to alter institution measurement performance which is suitable with principal scheme of performance indicator as follows:

Table 2.3
Principal to choose performance measurement

Re-Evaluate the measurement	Information of performance is required by management. If scheme of performance indicator has been un-functioned, management will develop new scheme. The un-function scheme maybe caused by un match between logical science and real interpretation. Then, to match logical science and performance indicator will provide interpretation of scheme performance indicator more accurate and real to be implemented.
Measure pivot activity, not only result	Performance is commonly orientated to result. Achievement of result is often formulized by financial ratio. Result achievement will show a problem but it cannot diagnose the result.
Measurement has to support team work to achieve the objective (*Goal-driven Team-work*).	Categorization of measurement process to build team work environment. The team work activity is orientated to organization goal achievement. A modern organization is complicated to be handled by individual or a department in its all activities. As consequence, team work is built to achieve the objective effectively.
Measurement is integrated and balanced resource in implementation	Measurement system should be provided as an integrated resources considering organization strategy. Most of large companies minimize cost, increase quality, minimize production time, and create investment return rationally.
Measurement focus on external factor	Internal measurement generally used in most of large organizations by comparing performance from year to year. The comparison sometimes achieves in micro level, such as division, department, group as well as individual.

f. Measurement Aspect

Measurement aspect is required by organization in performance evaluation. It is used to identify several aspects as guidance to support the organization to have a better achievement. Bastian (2006:276-277) identified that an organization commonly interested in performance measurement in these aspects:

1. Financial aspect

   It contains budget or *cash flow*. This aspect tends to be important in performance measurement due to financial condition can be analog as blood flow of human body.

2. Consumer satisfaction

   In global trade, the role and position of customer is very crucial in determining organization strategy. As a result, Management requires relevant information to increase customer satisfaction.

3. Operation and Internal business

   It is needed to convince all activities in organization to achieve the goal and the target stated in strategic scheme. However, information of internal business also requires to implement continuous improvement to make organization operate efficiency and effectively.

4. Worker Satisfaction

   Organization which provides innovation requires strategic role of its workers. If the workers are not well managed, it will damage the organization to collapse.

5. Community and *Shareholders/Stakeholders satisfaction*

   Performance measurement should be designed to accommodate stakeholders' satisfaction.

6. Time

   It is a crucial variable to be considered to design performance measurement. It supports relevant and up to date information.

In order to make performance measurement well implemented, several factors below should be considered:

a. Make a commitment to measure performance and act immediately. Institution has to conduct performance measurement immediately. Even it is not perfect, the institution can improve afterwards.

b. Performance measurement is *on-going process*. It is an interactive process reflects the organization always improve its performance.

c. Match the measurement performance to organization. Organization has to determine performance measurement related with the size of organization, culture, vision, mission, objective, target, and organization structure.

5. Research Method

a. Research type

Data collection is conducted by survey method. Sugiyono (2009:6) described that survey is used to obtain data with questionnaire, test, structured interview etc. Sangadji and Sopiah (2010:171) stated that survey is method to collect primary data uses oral and written questionnaire. This study used questionnaire, interview , and observation to collect data.

b. Population and Sample

Sugiyono (2009:80) defined population is generalization of research area. It contains object/subject with certain quality and characteristic to be investigated by researcher to obtain conclusion. Furthermore, Azwar (2009:77) stated that population is a group of subject will be generalized in the study. The population in this study is government employees in Depok City.

Then Sugiyono (2009:81) described sample as a part of population has characteristic to represent the population. Azwar (2009:79) Sample is a part of population and has population characteristic. This study used probability sampling. In this case, the members of population have the same opportunity to be chosen as sample. Simple Random Sampling is used to choose in the first step and then the sample is chosen based on the interval criteria. Total numbers of sample based on the below formula:

$$n = \frac{N}{1 + Ne^2}$$

N mnhjjj
Description:

n	=	sample size
N	=	Population
e	=	Level of precision 5 % (0.05)

Based on the calculation above the total sample are 160 employees in Local Government of Depok City.

c. Analysis

This study used qualitative and quantitative technical analysis. Sugiyono (2009:287) described the evaluation of qualitative method is holistic, complicated, dynamic, full meaning, and inductive. However, the problem has not cleared yet. Qualitative research will develop analysis of social situation. This method used description and did not use number. Then Sangadji dan Sopiah (2010:191) also stated that qualitative data is opinion or judgement in the form of words or sentences and not number.

On the other hand, Sugiyono (2009:8) defined qualitative method means a method based on positivism. It used to study population or sample, to collect data with research instrument, to analyze data with statistic and to test the hypothesis. Moreover, Sangadji and Sopiah (2010:191) said that data quantitative is number.

The writer analyzed the data using ordinal scale measurement. It is available using this measurement to rank respondent from the lowest to the highest. Based on the above scale each question is scoring as follows:

1. Very high   Score 5
2. High   Score 4
3. Average   Score 3
4. Low   Score 2
5. Very Low   Score 1

Next the writer evaluated validity and reliability:

1) Test of Validity and Reliability

Sugiyono (2009:348) stated that valid instrument means the tool is used to obtain validity of data measurement. It means the instrument is representative to measure

the data. Reliable means an instrument is used to measure the same object for several times and obtain the same data. Validity and reliability of instrument is a requirement to obtain validity and reliability of research result . This study used external validity. Sugiyono (2011:177) explained to test external validity by comparing (to find similarity) between criteria in instrument and empirical evidence in the field. Then reliability test to find internal consistency was conducted by one trial to obtain technical analysis. The result can predict the reliability of instrument. This test used *cronbach alpha* with interval data as formulized below:

$$r_{11} \left(\frac{k}{k-1} \right) \left(1 - \frac{\sum \sigma_b^2}{\sigma_t^2} \right)$$

Description:

r_{11}	=	Reliability of Instrument
K	=	Number of questions
$\sum \sigma_b^2$	=	Number of variant
σ_t^2	=	Total Variant

Value of reliability test is available to be used as research instrument if cronbach *alpha* minimum 0, 6.

2) Correlation Analysis

The research used *Rank Spearman* correlation analysis. According to Sugiyono (2008:356) Rank *Spearman* was used to analyze relationship or to test significance of associative hypothesis if each variable is ordinal. The formula of Rank Spearman Correlation is as follows:

$$\rho = 1 - \frac{6 \sum b_i^2}{n(n^2 - 1)}$$

Description:

ρ = coefficient of *Rank SpearmanCorrelation*

If n is higher than 3.0, and un-exist in table, the significance analysis is using the formula below :

$$t = r \sqrt{\frac{n-2}{1-r^2}}$$

3) Regression Analysis

This study used simple linear regression. Sugiyono (2009:261) defined simple linear regression is based on functional or causal relationship between one independent variable and one dependent variable. Equation of simple linear regression is as follows:

$$\hat{Y} = a + bx$$

Description:

$\hat{Y}$ = Subject predicted in dependent variable.

a = Price of Y when X = 0 (constant).

b = Coefficient Regression which shows increase or decrease of dependent variable based on independent variable change. If positive (+) the direction of line is up, and negative (-) is down.

X = Subject in independent variable.

To find price a and b can used this formula:

$$a = \frac{(\sum Y_i)(\sum X_i^2) - (\sum X_i)(\sum X_i Y_i)}{n \sum X_i^2 - (\sum X_i)^2}$$

$$b = \frac{n \sum X_i Y_i - (\sum X_i)(\sum Y_i)}{n \sum X_i^2 - (\sum X_i)^2}$$

4) Determination

This study used coefficient determination. It is a number commonly stated by presentation. It is obtained from coefficient correlation quadrate which shows the height relationship between *good governance government* and Local Government Performance at Depok City as formulized below:

$$KD = r2 \times 100\%$$

Value of determination coefficient between 0 and 1 (0<KD≤1) as described below :

a. If value of coefficient determination (KD) = 0, it means the influence of independent variable (X) to dependent variable (Y) is insignificant.

b. If coefficient determination (KD) = 1, it means variant condition (up/down) of dependent variable (Y) is 100% influenced by independent variable

c. If coefficient determination (KD) between 0 and 1 (0<KD≤1) means the height of dependent variable influence is the same as value of KD and the remains are from other factors.

5) Test of Hypothesis

This study used associative Hypothesis as Sugiyono (2009:88) stated that it shows the relationship among two variables or more. To test the hypothesis in this study uses T test and F test as describes below:

a) T test

This formula is used to know t count and t table:

t count

$$t_0 = \frac{r\sqrt{n-2}}{\sqrt{1-r^2}}$$

t table

$$t_\lambda = x\,(n-2)$$

Description:

t = value of t test

r = Coefficient Correlation

n = Total Sample

Criteria to determine the hypothesis is accepted or rejected are as follows :

a. If t count < t table or t count > t table, it means Ho is rejected , Ha is accepted

b. If t count > t table or t count < t table, it means Ho is accepted, Ha is rejected .

Associative Hypothesis is used if null hypothesis (Ho) states "lower or equal to (<) and alternative hypothesis (Ha) states "higher (>)".

Example of associative hypothesis:

Null Hypothesis (Ho)   : There is no relationship between X and Y

Alternative Hypothesis (Ha): There is relationship between X and Y

$\quad$ Ho : $\rho = 0$ $\quad$ 0 (there is no relationship)

$\quad$ Ha : $\rho > 0$ $\quad$ 0 (there is relationship)

(ρ = symbol shows the strength of relationship).

b) F test

To test significance of coefficient correlation among two or more independent variables relate simultaneously to dependent variable. The F test is formulized below:

$$Fh = \frac{R^2 / k}{(1-R^2)/(n-k-1)}$$

Description:

Fh = Price of F $\qquad$ k = Numbers of independent variable

R = Double Coefficient Correlation , n = Total Sample

a. If F count ≥ F table means Ho is rejected, Ha is accepted.

b. If F count < F table, means Ho is accepted, Ha is rejected.

6. Result and Discussion

a. *Participation*. Coefficient correlation is showed by 0,740. It is obtained regression equation Y = 14,041 + 2,935 X, and it can be concluded that *participation* impact positively on performance. Coefficient determination is 0,481 or 48,1%, it describes the strength relation between independent variable and dependent variable, and the remains 51,9% are influenced by other factors. T- Table = 1,753 and t-count = 3,725 means t count > t table, so that Ho is rejected and Ha is accepted or in other words there is significant relationship between participation and performance.

b. *Rule of Law*. Coefficient correlation is 0,758, so that the regression equation is Y = 15,356 + 2,972 X and it can be concluded that rule *of law* impact positively to performance. Coefficient determination is 0,589 or 59%, it shows the strength relationship between independent variable and dependent variable, and the remains 41% are influenced by other factors. T-tabel = 1,753 and t-count = 4,632, means that t count ≥ t table, so that Ho is rejected and Ha is accepted or there is significant relationship between *rule of law* and performance.

c. *Transparancy*. Coefficient correlation is 0,801, so that regression equation Y = 11,383 + 3,059 X, and it can be concluded that there is positive relationship between

transparancy and performance. Coefficient determination 0.625 or 62,5%, shows the strength relationship between independent variable and dependent variable, and the remains 37,5% is influenced by other factors. T-table = 1,753 and t- count = 5,000. Or t count ≥ t table, so that Ho is rejected and Ha is accepted or there is significant relationship between *transparancy* and performance.

d. *Responsiveness*. Coefficient correlation is 0,870, so that regression equation $Y = 15,394 + 2,546 X$, and it can be concluded that *responsiveness* impact positively on performance. Coefficient determination is 0,668 or 67%, it shows the strength relationship between independent variable and dependent variable, and the remains 33% are influenced by other factors. T-tabel = 1,753 and t-count = 5,492, or t count ≥ t table, so that Ho is rejected and Ha is accepted means there is significant relationship between *responsiveness* and performance.

e. *Consensus orientation*. Coefficient correlation is 0,801, so that the regression equation $Y = 14,587 + 2,534 X$, and it can be concluded there is positive relationship between *consensus orientation* and performance. Coefficient determination is 0,586 or 59%, it shows the strength relationship between independent variable and dependent variable, and the remains 41% is influenced by other variables out of this research . T-table 1,753 and t-count = 4,612, means t count ≥ t table, so that Ho is rejected and Ha is accepted or consensus *orientation* impact on performance.

f. *Equity*. Coefficient correlation is 0,693, so the regression equation $Y = 16,728 + 2,386 X$, and it can be concluded the positive relationship between *equity* and performance. Coefficient determination is 0,465 or 47%, it shows the strength relationship between independent variable and dependent variable, and the remains 53% are influenced by other factors. T-table = 1,753 and t-count = 3,613, means that t count ≥ t table, so that Ho is rejected and Ha is accepted or there is significant relationship between *equity* and performance.

g. *Efficiency and Effectiveness*. Coefficient correlation is 0,808, so that regression equation $Y 15,003 + 1.854 X$, and it can be concluded that there is positive relationship between *efficiency and effectiveness* and performance. Coefficient determination is 0,665 or 67%, it shows the strength relationship bethal ini menunjukkan between independent variable and dependent variable, and the remains 33% are influenced by other variables. T-table 1,753 and t-count 5,463, or t count ≥ t table, so that Ho is rejected and Ha is accepted or there is significant relationship between *efficiency and effectiveness* and performance.

h. *Accountability*. Coefficient correlation is 0,853, so that the regression equation: $Y 5,451 + 2,402 X$, and it can be concluded that *accountability* impact positively on performance. Coefficient determination is 0,688 or 69%, it shows the strength relationship between independent variable and dependent variable, and the remains 31% are influenced by other variables. T-table = 1,753 and t-count 5,747, or t count ≥ t table, so that Ho is rejected and Ha is accepted or there is significant influence between *accountability* and performance.

7. Conclusion and Suggestion

The sum up, the study result of *Good Governance Government* impact on performance of Local government in Depok City are as follows:

a. *Participation* impacts positively on performance. It shows the strength relationship between *participation* and performance and the remains are influenced by other factors.

b. *Rule of law* impacts positively on performance. It shows the strength relationship between *rule of law* and performance and the remains are influenced by other factors.

c. *Transparancy* impacts positively on performance. It shows the strength relationship between transparancy and performance, and the remains are influenced by other factors.

d. *Responsiveness* impacts positively on performance. It shows the strength relationship between *responsiveness* and performance, and the remains are influenced by other factors.

e. *Consensus orientation* impacts positively on performance. It shows the strength relationship between *consensus orientation* and performance, and the remains are influenced by other factors.

f. *Equity* positively impacts on performance. It shows the strength relationship between *equity* and performance, and the remains are influenced by other variables out of the research.

g. *Efficiency and effectiveness* positively impacts on performance. It shows the strength relationship between *efficiency and effectiveness* and performance, and the remains are influenced by other factors out of the study.

h. *Accountability* positively impacts on performance. It shows the strength relationship between *accountability* and performance, and the remains are influenced by other factors.

Suggestion

a. Based on the study shows that good governance government has not been conducted by Local Government of Depok City optimally. Local government should prepare the policy: to provide information system which is available to be accessed by the public to build *equity*, to provide communication or meeting for accepting public aspiration and increase public participation, and to improve local regulations to reach wisdom, effectiveness, and justice to reach the rule of law.

b. For the future researches, it is better to change method of performance measurement except Balance Scorecard, so that the researcher can identify the influence of good governance government by using different method of performance measurement.

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