

CHAPTER II

LITERATURE REVIEW

A. Theoretical Basis

1) *Stewardship Theory*

This study use the grand theory of Stewardship. This theory explains situations where management does not have motivation for personal goals but is more aimed at the interests of the organization (Donaldson & Davis, 1991) in (Jannah, et al., 2018). The executives in the organization, which in this case are the village head and the village government apparatus as a steward or the servant has the motivation to act according to the principal's wishes namely the community or the people. Steward behavior will not leave the organization because the steward has the motivation to achieve organizational goals. Stewardship theory has the roots of psychology and sociology that are designed to explain situations where managers as stewards or servants will behave according to common interests. When the interests of the steward and the owner are not the same, the steward will try to work together rather than oppose it, because the steward feels that shared interests and behavior in accordance with the owner's behavior are rational considerations because the steward looks more at efforts to achieve organizational goals (Pratolo, 2018). In this study the village head and village government officials are likened to a steward or servant who always acts according to the principal's wishes, namely

the community or the people. Standard behavior will not leave the organization because the steward has the motivation to achieve organizational goals.

The village head or village government apparatus as servants is formed so that he can always be invited to cooperate in organizations, besides having collective behavior and always being willing to serve. In the stewardship theory there is a choice between self-serving and pro-organizational behavior. Steward's behavior cannot be separated from the interests of the organization, meaning that the behavior of the village head and government apparatus is equal to the interests of the principal, namely the community. Stewards will override or divert self serving to cooperative behavior, so that even though the interests of the steward with the principal are different, the steward will continue to uphold the values of togetherness because there are greater benefits to cooperative behavior, and the behavior is considered rational and acceptable.

According to (Pratolo, 2018) explaining that "the association of this theory with public sector organizations is the more public an organization, the more its existence is based on the theory of stewardship. This theory also explains where managers of public sector organizations need accounting in order to carry out their functions as a steward that is requested or not by the principal must

still provide good information. "In the theory of standards related to the fulfillment of public rights, namely :

- **Rights to know** about policies and decisions taken by the government and to find out the reasons for certain policies and decisions.
- **Rights to get information** about the clarity or openness of existing problems and become a public debate.
- **The right to be heard** by both the community and those who have a partnership with the government.

2) Village Financial Management Performance

Financial capacity of a for-profit organisation is defined as the ability and potential to develop and deploy financial capital one can convert into money: revenues, expenses, assets, liabilities (Bourdieu, 1986; Hall et al., 2003). Thus, financial performance could be viewed as the development of the financial capacity of an organisation over time. Whereas for-profit organisations would mainly define and measure financial performance according to operating margin, total margin, return on assets, return on investment, profitability, benefits, etc., non-profit organisations will focus on financial stability, balanced budget, funding goals, etc. Even if the latter might be not-for-profit, they are not-for-loss either (Casteuble, 1997). It is the reason why non-profit financial performance is crucial for their survival and of

interest to be analyzed. Three financial performance-related categories correspond to those found by Ritchie and Kolodinsky (2003): public funds dependence; financial balance (namely, fiscal performance); and attraction of resources (namely, fundraising efficiency).

Based on Law No.6 of 2014 concerning Villages Article 1 explains that the village is a legal community unit that has certain territorial boundaries and is authorized in carrying out the government, the interests of the community in accordance with the agreement of the idea of the community, the right to local origin or traditional recognized respected in the NKRI government system.

To realize the goal of a village, of course it takes representatives from the village as well as from the local government called the village apparatus or apparatus. Village equipment is needed to run the village government where the village apparatus consists of the village secretariat, regional executors, and technical implementers.

The right of a village is stated in Law No. 6 of 2014 article 67 concerning Villages, where villages have the right to manage and manage the interests of their own villages, establish and manage village institutions, and have the right to obtain sources of income. Regarding the source of village income above, there is funding from the APBN and APBD that the village uses to run village programs in addition to the village's own original income and other income. The source of income can be channeled well for the village programs, of

course the performance of village financial management is needed by the village apparatus.

Performance is a record or report on the level of achievement of the program, or activities that have been carried out in realizing the goals, objectives, vision and mission of the organization that was planned at the beginning in the long-term planning of the organization (Moeheriono, 2012). Regarding the public organization described by Kumorotomo and Purwanto (2005) performance is the work done by employees of a public organization that can be measured by the quality and quantity of the results. Performance in an organization needs to be measured to find out how much the organization has achieved by looking at the program's initial plan and work results during the organization's work period. Another opinion regarding the definition of performance is the description of the ability to carry out activities or organizational policies in order to achieve the vision, mission and goals of the organization (Nurzianti and Anita, 2014).

The performance of financial management must be in line with the objectives of the establishment of village regulations in the Law on Villages. The Village Law explains that village regulation is intended to help develop village assets both from culture and human resources, improve services to the community and improve the resilience and economy of the village. The existence of village regulation is also expected to have a positive impact on a broader

scope in improving development, resilience and the national economy. The Nawacita principle held by the government is a reference that national development starts from the smallest government, namely the village, in accordance with the 2015-2019 RPJMN.

Supported by Permendagri No. 37 of 2007 concerning the Guidelines for Village Financial Management explained that the village has autonomous rights where the village has the right to take care of the village's own finances both the income and the management plan of assets owned in budget spending. With regard to village income that is quite large in the last two years, it is necessary to measure the performance of village financial management. Regarding indicators in measuring performance Moeheriono (2014) defines that performance indicators are values used to measure output or outcome of a program. According to Mardiasmo (2009) in his book describing several indicators in performance measurement, the indicators include:

1. Efficiency, namely the comparison of inputs with outputs that are associated with targets or performance standards that have been set.
2. Effectiveness, namely the comparison of program results with the target of the program.
3. Economical, namely the comparison between inputs with input values expressed in monetary units.

3) Capacity of Village's Apparatus

Capacity can be interpreted as an ability of humans, organizations and society in realizing good performance, to identify and achieve the goals, to change if needed in the business of sustainability, development, and with the aim of advancing (Ubels et al., 2010). Definition of capacity in the context of public sector as the abilities of government to plan, manage and sustain the development process of their economies and societies; and in keeping with the aspirations and potential of their respective countries people (Larbi, 1998).

The implementation of the village government as the front guard in national development especially in the affairs of local government certainly requires adequate capacity of the village apparatus (Asrori, 2014). Village government is run by village officials, in accordance with Law No. 6 of 2014 concerning Villages that the village apparatus consists of the village secretariat, regional implementers, and technical implementers who assist the village head as the village leader in realizing village development goals.

The village head is the village apparatus who plays a direct role in village financial management more precisely as the holder of power over village financial management. The village head is assisted by the Village Financial Management Technical Implementation (PTPKD) in carrying out village financial management, secretariat as coordinator

of the implementation of village financial management, and village treasurer with the status of village secretarial staff serving as financial administration including in the administration of village finances. Associated with good financial management in an agency requires competent human resources with a professional background in accounting (Rafar et al., 2015).

4) Compliance with The Regulations

Regulatory compliance is an obligation to rules or applicable law. Management of village finance is regulated in accordance with Permendagri No. 113 of 2014 concerning Village Financial Management. Article 2 of Permendagri No. 113 of 2014 concerning Village Financial Management describes several principles that must be used in managing village finance. These principles include:

1. Transparent, is openness related to information regarding the implementation of financial management that contains policies, plans, implementation and results.
2. Accountable, is the village apparatus has the ability to explain and answer the performance of the village government to the community.
3. Participatory, is the process of village financial management from the start of the planning process, implementation to financial statements and accountability must include the community as well as monitor it.

4. Orderly and disciplined, are village financial management carried out in an orderly and disciplined manner in accordance with the applicable rules, such as being obedient, consistent, according to the amount.

Permendagri No. 113 of 2014 concerning Village Financial Management explains that the village head is the power holder in managing village finances, as well as the village government representative of the ownership of the village's wealth. The village head is assisted by the village secretary, section head, and treasurer as PTPKD in implementing village financial management. The village secretary has the duty as the technical executive coordinator in village financial management, the section head as the executor of activities in accordance with his assigned field, while the treasurer is the staff of the financial affairs department.

Village financial management is all activities that include planning, implementation, administration, reporting, and accountability of village finance. As a form of responsibility of the village head, it is necessary to report on the realization of the Village Budget implementation which covers every activity in managing village finance. The contents of the APBDesa realization report include village income, village expenditure, and village financing.

Financial statements are facilities used by entities in communicating conditions related to the condition of the entity's finances to interested parties both from internal parties and from external parties (Kieso et al., 2007). The purpose of financial statements is to provide information related to financial position, financial performance, and cash flow reports on an entity that benefit a large number of financial report users for economic decision making (Indonesian Accounting Association, 2015).

5) Utilization of Information Technology

According to Williams and Swayer (2003) in (Kadir & Triwahyuni, 2013) explains that "Information technology is a technology that combines computing (computer) with high-speed communication lines that carry data, sound and video". In local public services, integrated systems are seen as means to support the delivery of two important objectives of local public services (Bacon, 1998). On one hand, integrated systems facilitate the development of the enabling local authority, where service delivery is devolved to many separate organisations. On the other hand, it supports direct citizen access to local services in the form of a "one stop shop" (Bacon, 1998).

That statement shows that information technology is a combination of computer technology and telecommunications technology. Computer technology is a technology related to computers, while telecommunications technology is commonly referred to as

communication technology. Usually this technology is related to long distance communication.

Systems integration generally refers to the creation of tighter linkages between different computer-based IS and databases. At least four alternative approaches can be used to IT integration (Markus, 2000). A simple solution is to build one-to-one interfaces between different systems. In data warehousing, extracts are made on a regular basis from source systems to a specific warehouse, which then can be used by other applications. Information technology is also defined as technology that supports human work in producing something that is needed in an organization, such as financial statements. The purpose of using technology so that reports can be easily understood by stakeholders (Triyanto, 2017). In addition, if human resources utilize existing technology, then this can reduce errors in financial statements or in financial management. This is because information technology has been designed systematically and in accordance with applicable rules so as to minimize errors that will occur.

The need for technology utilization in an organization is caused by factors that are due to the demands of performance, complexity and rapid technological development, as well as existing needs so that it requires the use of information technology to facilitate their performance (Widiyanta, 2017). In public sector organizations or

government if the use of information technology is used optimally, it can facilitate the delivery of information to the public.

6) Village Quality Supervision of the Village Consultative Body

In accordance with Law No. 6 of 2014 concerning Villages, the Village Consultative Body (BPD) is an institution that carries out the function of village administration where members are representatives of the village population based on regional representation and democratically elected. The function of the BPD is to become a representative of the community in its territory in terms of formulating village regulations with the village head and channeling the aspirations of the community. In addition to this function the BPD also has a supervisory function on the performance of the village government, including in village financial management.

The Village Consultative Body in each village is represented by a minimum of five people and a maximum of nine representatives, this depends on the area of the village. The BPD in a village government acts as a legislative and village apparatus as the executive in a small scope of government. The system of government which reveals that a government requires the executive and legislative roles even in the smallest scope.

7) Village's Apparatus Commitment

Human Resources (HR) in an organization become the most important party in the success of an organization's goals. HR is the driver of a system that exists in the organization in carrying out the program in an effort to achieve organizational goals. Starting from planning, implementing, controlling to evaluating and accountability of organizational programs. Therefore, HR commitment to the sustainability of the organization is the initial foundation for achieving organizational goals. In accordance with the statement of the Institute of State Administration of the Republic of Indonesia in his research Husna and Abdullah (2016) that the heavy duty of the government must be filled by human resources who have high enthusiasm, complete commitment, good competence in carrying out the tasks of government and development.

Commitment is a combination of a person's measure of confidence with his motivation (Moeheriono, 2014). Confidence is the level of one's self-confidence or having a sense of ability to carry out their duties well without being watched. Motivation is an individual's interest and enthusiasm in carrying out his duties well. Other opinions say that commitment is a condition where individuals in the organization take sides with the organization in achieving organizational goals and the desire of individuals to maintain their membership in the organization (Robbins and Judge, 2007).

Commitments given by individuals to the implementation of organizational programs well is an obligation that must be owned by individuals in an organization. The individual upholds the agreement and is responsible wholeheartedly, strives to achieve the target, is responsible for the work that must be done, carry out duties in accordance with the rules of the organization, trying to solve the problems that are made to be his responsibility. This requires support from the organization through giving attention and trust to each individual in carrying out their duties.

8) Village's Facilitators

Supervision which then accompanies is the practice of directing, mentoring, training and assessment carried out by direct superiors through personal or group delegation to individuals or groups in the process of achieving certain targets (Erawati, 2012). Village assistants are needed by a village related to the Law on Villages. In accordance with Government Regulation No. 47 of 2015 Article 129 paragraph 1 states that village assistants come from village community empowerment cadres, village assistants from Subdistrict governments, technical implementers who work in the Subdistrict as village assistants, and community empowerment experts. This explains that village assistants can come from the community, government and even from the private sector.

The purpose of village assistance contained in the Village Minister Regulation (Permendesa) Number 3 of 2015 concerning Village Assistance includes :

1. Increasing the capacity, effectiveness, and accountability of village government and village development.
2. Increasing initiative, awareness and participation of rural communities in participatory village development.
3. Increasing the synergy of village development programs between sectors.
4. Optimizing village local assets in an emancipatory manner.

Considering that the duties and responsibilities of village assistants are very broad, it is necessary to recruit village assistants who have qualified qualifications. Village assistants have at least competencies, among others (Article 4 of the Regulation of PD TT No. 3 of 2015) :

1. Having knowledge and ability in empowering rural communities.
2. Having experience in organizing in line with village government.
3. Able to provide economic assistance to village communities.
4. Able to facilitate groups in village consultations.

5. Have sensitivity to the habits, customs, and culture of the village.

The role of village assistants in village governance, especially in financial management is very much needed to see the capacity of village officials who are still weak (Prasetyo and Muis, 2015).

9) Community Participations

The implementation of management covering all aspects of new life will succeed if it is an activity involving all members of the community. This is explicitly stated by Tjokroamidjodjo (1974) cited by Supriyadi (2010) that on one hand important participation in management and development is even one of the objectives of management and development itself. Cohen and Uphoff (1977) divided participation into several stages, as follows :

- a. The stage of decision making, which is realized through community participation in meetings. The decision making phase in question is planning activities.
- b. The implementation phase, which is the most important stage in development, because the core of development is implementation. The concrete manifestation in participation at this stage is classified into three, namely participation in the form of thought contributions, forms of material contributions, and forms of action as program members.

- c. The stage of enjoying the results, which can be used as an indicator of the success of community participation in the planning and implementation stages of the program. In addition, by looking at the position of the community as the subject of development, the greater the benefits of the program are felt, meaning the program succeeds in achieving the target.
- d. The Evaluation Phase is considered important because community participation at this stage is feedback that can provide input to improve the implementation of the next program.

B. Hypothesis

1) Effect of Capacity of Village Apparatus on Village Financial Management Performance

The authority or duty of each village apparatus, especially in the field of village financial management. Village heads as village power holders have several authority in financial management including: establishing APBDesa policy, Determining PTKPD, Determining Officers who are in charge of village income, approving village financial expenditures in accordance with APBDesa provisions, and taking actions that result in expenditures at the Village Budget. The village secretary has duties including: compiling and implementing policies in the management of village budgets, drafting village

regulations on village budgets, changing village budgets, being responsible for implementing village budgets, controlling the implementation of village budgets, compiling reports and accountability for implementing village budgets, and verifying evidence which he received related to the implementation of the Village Budget. The Treasurer has the task of receiving, storing, depositing, damaging, and being accountable for both the receipt and expenditure of village income in the implementation of the Village budget.

There are several studies that have been carried out regarding the factors that influence the performance of village financial management, especially in terms of capacity of the village apparatus. In Santoso (2018) research, the ability, understanding and skills possessed by village officials in managing village finance were able to encourage for better improvements in village financial management. It is also supported by the results of research by Jalil (2017) that human resources in the village government are very important in the success of village financial management. Another study from Suryadi (2016) found that there was an effect of human resources on the management of village expertise caused by a history of education and a lack of training. Prasetyo and Muis (2015) explain in the results of his research that HR is a crucial key factor in the success of village financial management. From the above explanation, the formulation of the hypothesis is :

H₁ : The capacity of the village apparatus has a positive effect on the performance of village financial management

2) Effect of Compliance with Regulation to Village Financial Management Performance

The openness and ability to explain from the village government starting from the policy, implementation, and results of financial management to the village community can minimize the occurrence of misappropriation of village finance. As a result of misappropriation of village finance, the budget is not channeled properly so that the programs carried out are not achieved and the needs of the community are not met. Participation from the community provides information about the needs of the community and creates agreement on the APBDesa and conducts supervision that gives an agreement, this creates a work program that is in accordance with the needs of the community. Village financial reports that are made consistently and on time and records are carried out in accordance with the amount in the field to help formulate the village budget for the next period in strategic decision making in village financial management.

Village financial management arrangements must fulfill the principles in accordance with those stated in Permendagri No. 113 of 2014 requires village officials to work according to policies and plans that have been made between the government and the community, so that the results obtained will be in accordance with the needs of the

community. This is evidenced by the results of research by Munti and Fahlevi (2017) which explain that compliance with financial reporting affects the performance of village financial management. The explanation above explains that compliance with village financial reporting requires village officials to carry out village financial management properly in accordance with applicable regulations, so the hypothesis formulation is as follows :

H₂ : Regulatory Compliance Has Positive Impact on Village Financial Management Performance

3) Effect of Quality of Village Consultative Body Supervision on Village Financial Management Performance

Supervision carried out by the BPD contained in Law No. 6 of 2014 Article 61 that the Village Consultative Body has the right to supervise and ask for information about the administration of the village government to the village government. The BPD supervision function makes village apparatus more transparent in using village financial budgets, so as to minimize errors in budget use and misuse of village finance, so that the use of village finance can work on target. This is supported by his research Mondale et al. (2017) that BPD supervision is one of the supporters and obstacles in the process of village financial management.

Research from Munti and Fahlevi (2017) explains that the quality of supervision from BPD influences the performance of village financial management. Another study by Adha (2016) found that there was an influence of BPD supervision on the performance of the village head of Rambah Utama, Rambah Samo Sub-District, Rokan Hulu Regency. The results of the study from Prasetyo and Muis (2015) explain that the BPD must strengthen the supervision of village officials in managing village finance to achieve good village financial management. After the explanation above, the following hypotheses are formulated:

H₃ : The Quality of Supervising of the Village Consultative Body has a Positive Effect on Village Financial Management Performance

4) Effect of Information Technology Utilization on Village Financial Management Performance

The use of information technology in the village government helps village officials in making village financial reports more accountable by using computers. The use of computers or applications in making financial statements will present a more detailed report and can minimize presentation errors. In addition, with the internet network that can be accessed easily, village officials can share information on the use of village finance to the internal parties of the village, local government, and the community in particular so as to create transparency in village financial management. Making open data in Wonosobo village can also increase community participation by

providing responses regarding the use of village finance to contacts that are already available on the website.

The use of information technology can be measured using five indicators including the internet network, internet networks are well utilized, applications used, computerized financial reports, and software in accordance with the Act (Nurillah, 2014). The results of the research by Sugiarti and Yudianto (2017) explain that the use of information technology has a significant effect on the accountability of village fund management. Nurmiati (2017) the results of her research prove that information technology has an influence on improving financial management performance. Seeing the explanation above, the hypothesis is formulated as follows :

H₄ : Information Technology Utilization Has A Positive Effect on Village Financial Management Performance

5) Effect of Village Apparatus Commitments on Village Financial Management Performance

The alignment of objectives between the village apparatus and the objectives of the village provides a boost to the performance of better village financial management. This also agrees with the statement from Astuti et al. (2016) that an effective financial control system is supported by supervision, a clear description of roles, and commitment from management in internal control.

Previous research from Nasir and Oktari (2011) explained that there was an influence from organizational commitment to the performance of government agencies. Another study from Fitriana (2015) found that there were influences from HR, village financial information, and organizational commitment to village financial management. According to the explanation above, the hypothesis is formulated as follows :

H₅ : Village Apparatus Commitments Have a Positive Effect on Village Financial Management Performance

6) Effect of Village Facilitators on Village Financial Management

Performance

Village facilitators become facilitators for the government and village communities in the effectiveness of implementing government, development, empowerment and community in order to achieve the welfare of rural communities. Seeing the duties of village facilitators shows that village facilitators have a crucial role in managing village finances. This is also reinforced by the results of a study from Pahlevi (2017) that the authority of village facilitators conducted in the village of Raharjo Pugung, a sub-district in the east of Lampung regency, includes authority in planning programs and allocating village funds, utilizing or allocating village funds, controlling village fund allocation and supervision of village fund allocation.

Reflecting on the previous government program namely rural PNPM where the facilitator only worked as a planner who dictated his village apparatus and little was used to empower the community. Related research explains that there is still a lack of supervision or village assistance and it is recommended that village assistants be more active in conducting training on supervision methods and strategies as well as introducing supervisory models (Prasetyo and Muis, 2015). Research from Pahlevi (2017) explains that the implementation of village assistance in the field is still not maximal and has not been in accordance with the regulation of village assistance. Parwati et al. (2017) the results of his research revealed that the competence of village assistants had a positive and significant effect on the success of village fund management. Referring to the explanation above, the formulation of the hypothesis is:

H₆ : Village Facilitators Have a Positive Effect on Village Financial Management Performance

7) Community Participation Has a Positive Effect on Village Financial Management Performance

According to Crook and Sverrisson in Devas and Grant (2003: 309) Accountability can be strengthened through increasing community participation. As a key to increasing the responsiveness of local governments to the poor, and to make development more pro-poor. As a mechanism for accountability, participation is carried out from

evaluation to reporting (Ebrahim, 2003: 818). As in Los Angeles, participation is a way to increase accountability in response to the high public distrust of the government. Many citizens blame officials in decision making (Kim and Schachter, 2013: 462).

The results of this test are in line with Zeyn's (2011) research that the role of the community to participate in the planning, implementation, control and supervision of development can improve government performance effectively, efficiently, transparently, and accountably. Rahmanurrasjid (2008: 6) put forward the results of his research, namely accountability and transparency in the accountability of regional government can be realized with the active participation of the community. Research in harmony with this research is by Mamelo (2016, Karimah (2014), Fajri (2015), Riyanto (2015), Makalalag (2017), Arifiyanto (2017), and Aziz (2016) and Mada, Kalangi and Gamaliel (2018) The formulation of hypotheses is as follows :

H₇: Community participation has a positive effect on the performance of village financial management

C. Research Model

Based on the theoretical framework and hypotheses that are formed then produce the research model as follows:

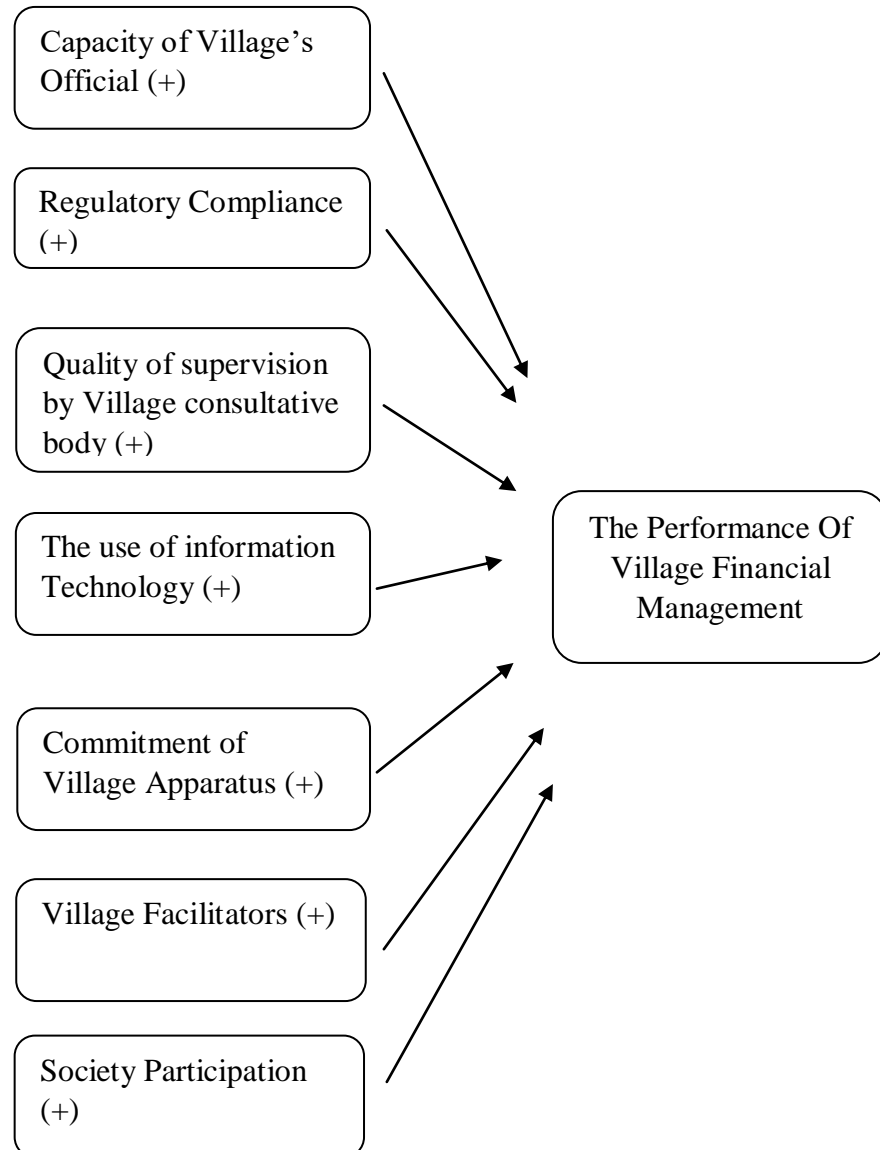


Table 2.1 Research Model