






“Determinants of accrual accounting adoption: The role of organizational culture”

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DETERMINANTS OF ACCRUAL ACCOUNTING ADOPTION: THE ROLE OF ORGANIZATIONAL CULTURE

Abstract

This study aims to investigate the relationship between communication, training, educational background and the adoption of accrual accounting. It also examines whether organizational culture moderates the relationship between these factors and the adoption of accrual accounting. The census sampling method was utilized to choose 44 finance division staff for this investigation. Structural equation modeling (SEM) using Smart PLS version 3.0 was employed in this paper for data analysis. In addition, a systematic questionnaire was issued to the heads of financial divisions and administrative staff in Riau city, Indonesia, in order to collect relevant data. The findings of this study revealed that the adoption of accrual accounting is influenced by communication and training, while educational background has insignificant effect. Furthermore, the interaction between training and communication in accrual accounting adoption is moderated by organizational culture. Meanwhile, organizational culture does not moderate the relationship between educational background toward the adoption of accrual accounting. Therefore, this study assists local governments in providing feedback on the implementation of various government accounting policies. Moreover, it offers information on local government coordination and solutions for accrual-based accounting systems adoption, which can be utilized as a reference for the public and local government in creating and fully adopting relevant policies. Finally, it can be used to establish and improve administrative structures in the public sector.

Keywords accrual accounting, educational background, training, communication, Indonesia, local government

JEL Classification I28, M48, M53

INTRODUCTION

The new public management (NPM) emerged due to the introduction of accrual-based accounting (AA) in the public sector. NPM is a broad categorization phrase that is akin to public sector reform. NPM mandates that state financial management be more transparent, responsible, and capable of disclosing necessary information for accountability and decision-making. As a result, this is consistent with the advantages of using an AA system. The accrual system, governed by Government Accounting Standards (GAS), is one of NPM's products. GAS is a set of accounting standards used by the government to prepare and report financial statements. PP No. 71 of 2010 addressing GAS, Law No. 17 of 2003 on State Finance, Law No. 1 of 2004 on State Treasury, Law No. 17 of 2003 on State Finance, Law No. 1 of 2004 on State Treasury, and Minister of Home Affairs Regulation No. 64 of 2013 on the extension of Accrual Based GAS to local governments are all examples of AA reforms in Indonesia.

In general, governments around the world have accepted AA and reporting. According to Adhikari and Gårseth-Nesbakk (2016), the governments believe in the advantages of accrual accounting and re-

porting at all levels, including the state, federal, and municipal governments, and social security funds. Using the information from PWC (2015), even though only the Oceania continent has embraced 100% accrual accounting, every continent in the world is willing to do so. However, Indonesia still has many roadblocks for the accrual system to be properly implemented.

According to statistics from the IHPS (2018) I 2018 First Semester Examination Results, some transactions are still provided on a cash basis. According to the 2015–2019 National Medium-Term Development Plan (RPJMN), AA is being implemented in 24 provinces and 300 districts/cities in Indonesia (RPJMN, 2019). The average score of LGs using SAP accruals was 69.55 in the 2015 financial statements (Leksono & Haryanto, 2017). One factor that becomes an obstacle to AA application is the lack of human resources (HR) competence. Investing in people resources, effective communication, a solid educational foundation, and a positive company culture are vital to overcoming these challenges. Thus, it can provide qualified and competent human resources in preparing and compiling financial reports on an accrual basis in Indonesia.

1. LITERATURE REVIEW

Accrual-based accounting is an accounting basis that recognizes revenue when the income has been received or is expected to be received and recognizes an expense when an item or service has been used up. Accrual accounting expenses recognize revenues and expenses when transactions occur (Kieso et al., 2011). Accrual accounting based on SAP is an accounting basis in which economic transactions and other events are recognized and presented in the financial statements when they occur, regardless of when cash or cash equivalents are received or paid. The implementation of accrual accounting is the full implementation of PP. 71 of 2010 in government institutions (Aswar & Saidin, 2018; Aswar, 2018). According to Lapsley et al. (2009), the application of AA is the primary user of providing financial information about the resources controlled by the entity, its operating costs (costs of supplying goods and services), enhanced cash flow information, and other financial data. Such data can be used to assess the financial status and changes in financial position, as well as whether the reporting organization is functioning economically and efficiently. Accrual accounting is critical when evaluating government performance in terms of service prices, quality, and achievement.

The institutional theory concludes that an organization adopts a structure and practice in responding to actual or anticipated external changes. An organization is built by institutional scope around them. This situation can explain the external pressures that form an organization as normative iso-

morphism, coercive isomorphism, and mimetic isomorphism. Coercive isomorphism indicates that an organization gets some conformations or adopts other organizations due to the pressures by the nations, other organizations, or the wider society. Afterward, mimetic isomorphism is an organizational imitation by the other organization. Lastly, normative isomorphism is caused by professional demands (DiMaggio & Powell, 2000). Pollitt and Bouckaert (2004) assumed the most appropriate institutional theory to explain changes in public management reforms, and Christensen (2005) used institutional theory to extend consultants in accrual accounting.

Inadequate human resources knowledge is one reason that prevents accrual accounting from taking hold. To overcome these challenges, human resource training, effective communication, a reliable educational foundation, and a positive business culture are required (Ouda, 2008). In addition, it can provide qualified and competent human resources in preparing and compiling accrual financial statements. Fadelelmoula (2018) mentioned that training has an impact on the system's implementation. Therefore, the organization that adopts a system must consider the training component. Previous research has found that training can help organizations accomplish strategic and efficiency goals by strengthening end-user skills (Ram et al., 2013).

Similarly, training programs were found to be related to the adoption of accrual accounting in Java municipalities (Aswar, 2018). This is also consist-

ent with the arguments made by Aswar and Saidin (2018): the level of AA adoption is influenced by training. Learners receive training that equips them with the knowledge and skills they need to succeed in their present job (Mondy, 2008). The notion of institutional normative isomorphism supports this. This training teaches and improves individual talents to carry out professional needs. There are correlations between training and the use of accrual accounting (Almajed & Mayhew, 2013; Aswar, 2018; Dezdar, 2012; Kusuma & Fuad, 2013).

Apart from that, another factor that affects the adoption of AA is communication. Communication is the exchange of data between two or more persons. Effective communication will aid the progress and have an impact on the accrual accounting adoption. According to the institutional theory, communication is critical for the efficacy of groups or organizations to promote employee efficiency. Thus, employees will be encouraged to communicate outside their organization's scope if given incentives, resulting in the successful adoption of accrual basis accounting, known as normative isomorphism. Previous research has found a link between communication and AA adoption, with the communication level in socializing and implementing GAS corresponding to the extent of AA GAS in the associated region (Almajed & Mayhew, 2013; Aswar & Saidin, 2018; Dezdar, 2012).

Coordinated communication is an excellent technique for describing priorities, plans, benefits, and population, as well as providing regular reports to the critical level of adequacy (Dezdar, 2012). In addition, communication must be maintained, and employees can mutually inform each other at all times to understand the project implementation level. A communication gap is one aspect that contributes to the failure of a system's implementation (Abouzahra, 2011; Al-Mashari & Al-Mudimigh, 2003). Almajed and Mayhew (2013) found that communication is one of the fundamental components in system performance.

According to the human capital idea, education information, skills, and values in people increase their productivity and intellectual ability. Gray (2006) demonstrates how education affects a person's ability to absorb new information (including acquiring, assimilating, transforming, and utiliz-

ing it). According to the institutional normative isomorphism hypothesis, individuals can absorb, interpret, and apply a policy or process in an organization; in this case, it is AA adoption.

Eriotis et al. (2011) indicated that the type of formal administration and hierarchy would be more important in encouraging the adoption of an AA system and reaping the projected benefits. It was found that the government needs employees with the appropriate skills and capacities as well as experience in the field of finance. This expertise and capacity may be obtained by recruiting employees with the right qualifications (Negara, 2015). Accounting reform adoption is favorably associated with a business-oriented educational background. According to Emsley et al. (2006) the deployment of a system is aided by leadership with solid administrative experience. Furthermore, Kusuma and Fuad (2013) show that educational background positively affects the extent of AA adoption.

This study uses organizational culture as a moderating variable. A thriving culture is built on agreed values and goals. Emphasis on openness to change, a mindset of continuous improvement within the company, and a strong commitment to using the system to achieve business goals will help in the successful implementation of the system (Robey et al., 2002). According to Van Den Berg and Wilderom (2004), organizational culture is a perspective of organizational work practices that is diffused within units that are distinct from one another. This argument is related to Aswar et al. (2021): the effectiveness of accrual accounting is determined by human issues and culture.

Organizational culture is vital in determining the success of strategy implementation and achieving company performance goals (Lee & Yu, 2004). According to Robbins (2003), organizational culture is a shared perception held by organization members. Values, beliefs, and behavioral conventions are part of organizational culture. It encourages organizational learning and innovation, which will determine whether organizational systems or strategies are implemented successfully. The importance of organizational culture in understanding successful system adoption cannot be overstated (Nah et al., 2007; Johnson et al., 2005).

Organizational culture can determine whether a system is implemented successfully. Annamalai and Ramayah (2013) state that organizational culture also affects system adoption. Employee values, traditions, policies, business principles, and beliefs all fall under the umbrella of organizational culture. Aswar and Saidin (2018) evaluated the impact of top management support, training, and IT quality on accrual accounting adoption using moderation variables.

The impression of behaviors or principles that encourage the organization to achieve its objectives is referred to as organizational culture. The organization frequently encounters roadblocks during its operations due to a lack of excellent human resource competencies. Human resources can improve their quality and talents if the corporate culture promotes and emphasizes it. Therefore, human resources are encouraged to comply with and carry out training to aid in attaining goals in companies that adopt this culture (Siegal & Sussman, 2003). As a result, training can help reach goals; in this example, it is the adoption of AA (Aswar & Saidin, 2008). This instance follows the institutional theory of normative isomorphism in terms of professional talents that can help the regional government enhance the process of implementing the AA system.

A good and maintained level of communication is necessary to organizational culture (Nah et al., 2007). Communication between personnel in the organization is required to attain the objectives. Regarding institutional theory, appropriate communication can help promote individual quality; normative isomorphism is used in this sense. Adopting an organizational communication culture can help accelerate the installation of a new system (Almajed & Mayhew, 2013). A sound teamwork system is frequently linked to organizational culture. Certain parties/individuals with a less distinguished background may benefit from organizational culture or those who are not suited for the linked scope of work can become more inventive. It is based on professional needs and follows the notion of institutional normative isomorphism. In order for organizational culture to support individuals who lack understanding in the area of teamwork, in this case, its purpose is to aid individuals in adopting AA.

2. AIM AND HYPOTHESES

This study aims to examine the effect of internal factors on the adoption of AA by the Indonesian local government. The following hypotheses are formed based on the literature review:

H_1 : *Training positively and significantly affects AA adoption.*

H_2 : *Communication positively and significantly affects AA adoption.*

H_3 : *Educational background positively and significantly affects AA adoption.*

H_4 : *The impact of training on AA adoption is moderated by organizational culture.*

H_5 : *The impact of communication on AA adoption is moderated by organizational culture.*

H_6 : *The impact of educational background on AA adoption is moderated by organizational culture.*

3. METHODS

This study presents a way for validating the conceptual framework offered for empirical studies involving respondents' data. In this study, each variable is measured using a method that was used in previous research. The accrual accounting adoption variable was adopted from Aswar (2018) using a Likert scale with five statement indicators. The training variable was adopted from Aswar (2018) using a Likert scale with seven statement indicators. The communication variable was adopted from Aswar and Saidin (2018) using a Likert scale with six statement indicators. Educational background variables were adopted from Kusuma and Fuad (2013) using dichotomous scales; if they came from economics, accounting, or management fields, they were given a value of 1, if otherwise – a value of 0. Furthermore, organizational culture variables were adopted from Aswar (2018) using a Likert scale with seven statement indicators. The heads of finance divisions and Riau City Regional Government Organization staff are the target population. Furthermore, using the census

sampling technique, this study selected as many as 44 regional government departments; the total sample is $44 \times 1 = 44$ respondents.

4. RESULTS

Descriptive statistics aim to provide characteristics of the data received. The mean and standard deviation are always utilized when employing ratio and interval scales to characterize study aspects. A five-point Likert scale is used for the interval scale, while a dummy scale is used for the ratio scale (0 and 1). Table 1 shows the descriptive statistical analysis.

Table 1. Descriptive statistics

Variable	Mean	Std. deviation
Adoption of Accrual Accounting (AAA)	4.42	0.148
Training (T)	4.20	0.131
Communication (C)	4.21	0.051
Educational Background (EB)	0.71	0.455
Organizational Culture (OC)	4.16	0.111

Based on the results of descriptive statistics in Table 1, training amounted to 4.20 with a total of 7 items from 55 respondents with an SD of 0.131. Then, the mean provided for the communication is 4.21 with an SD of 0.051. Furthermore, educational background showed 0.71 with an SD of 0.455. Finally, organizational culture showed 4.16 with an SD of 0.111. Table 2 reveals that no level deviation is less than the average for any variable. This demonstrates that the level of data homogeneity is high. It also shows an average representing the right results by analyzing the standard deviation. Table 2 presents the results of the reliability and validity tests.

Table 2. Convergent validity and reliability

Variable	AVE	Composite reliability	Cronbach's Alpha
IAA	0.760	0.840	0.921
T	0.563	0.899	0.869
C	0.605	0.901	0.866
EB	1.000	1.000	1.000
OC	0.547	0.894	0.861

Table 2 shows the composite reliability value for all constructs with a value greater than 0.7, meaning that all of the components in this study fit the criteria. The lowest value is 0.894 for organizational

culture, so it can be decided that all variables in this study have good reliability for each construct. In addition, the reliability test can be strengthened by looking at the value of Cronbach's Alpha. The recommended value of Cronbach's Alpha is above 0.6; the lowest Cronbach's Alpha value is 0.861 for organizational culture. Thus, all variables have values above 0.6, and it can be concluded that they have good reliability. Table 2 displays the AVE values on all variables to explain the level of data validity. Variables are valid with AVE values above 0.5. In this study, the lowest AVE value is 0.547 for the dependent variable, organizational culture. However, these values still meet the requirements. Next, the structural model data for path coefficient analysis is shown in Table 3.

Table 3. PLS path analysis coefficient results

Relationship	Path coefficient	t-value	p-value
T → IAA	0.438	3.016	0.003
C → IAA	0.807	4.711	0.000
BE → IAA	0.001	0.012	0.990
T · OC → IAA	-0.284	2.140	0.033
C · OC → IAA	0.250	2.066	0.039
BE · OC → IAA	0.054	0.707	0.480

5. DISCUSSION

Table 3 shows how training provides learners with the knowledge and skills they need for their current job (Mondy, 2008). Training helps improve employees' expertise and abilities in specific fields and provides competent human resources. Negara (2015) reveals that the application of AA in Indonesia can be successfully implemented if all the improvements in human resources are competent. In addition, following Fadelelmoula (2018), an organization must pay special attention to the training component, as training affects the system's implementation. Based on the data analysis, training has a substantial impact on the application of AA. This study supports Aswar (2018), who researched the municipality regarding the application of accrual accounting on Java Island and discovered a link between training and accrual accounting. This finding also aligns with Dianto and Aswar (2020), who investigated the adoption of accrual accounting in the Cianjur Regency and discovered that training benefits accrual accounting adoption. Likewise, Dezdar (2012) demon-

strates that the training positively impacts ERP installation in Asia. Similarly, Almajed and Mayhew (2013) concluded that training and learning favorably influence the effective execution of IT projects in Saudi Arabia. The results are consistent with the normative isomorphism institutional theory, which describes how an organization's forming components and success are founded on professional demands from associated parties. In this scenario, training entails personnel learning and improves their abilities to meet their professional obligations in order to enhance accrual accounting adoption.

According to Cangara (2006), communication is a step in which two or more people create or share information, and, in turn, a deep mutual understanding can be established. In addition, Pearson and Nelson (2000) argue that communication is a process of understanding and sharing meanings. Therefore, effective communication can help make progress and will have an impact on accrual accounting adoption.

According to institutional theory, communication is essential for the operation of groups or organizations, as well as for enhancing employee productivity. Promoting contact would improve human contact within the organizational environment, a normative isomorphism; thus, accrual-based accounting adoption can work well. Communication has a substantial impact on accrual accounting adoption. The study does not support Dianto and Aswar (2020), who found that communication does not significantly influence accrual accounting implementation. However, Aswar and Saidin (2018) examined the extent to which Java and Sumatra have adopted accrual accounting. They found that excellent communication can provide an increase in accrual accounting adoption. In addition, Nah et al. (2007) showed that the level of communication across organizations has a positive impact on the success of ERP implementation. Communication is a dynamic aspect that comprises definitions of individual roles and duties, explicit project milestone expectations, pre-implementation training, and defined time boundaries, among other things.

Individuals' learning capacity and productivity are increased due to educational background, which instills knowledge and skills. Gray (2006) illustrates

that education impacts the ability to absorb new information. The findings of this study show that educational background has no significant impact on the adoption of AA. This aligns with Kusuma and Fuad (2013) that educational background has no significant effect on the adoption of AA. Similarly, Eriotis et al. (2011) mentioned that educational background has little bearing on accrual accounting compliance. Thus, educational background is only one of the critical things in the adoption of accrual accounting. Accountants who obtained degrees in management or economic accounting do not significantly influence AA adoption. This is counter to the normative isomorphism institutional theory, which states that an individual's educational background influences his or her ability to acquire, comprehend, and apply an organization's policy or process; the relationship here is the adoption of accrual-based accounting.

Organizational culture, as a view of organizational work practices in organizational units, might differ from those of other organizational units (Van Den Berg & Wilderom, 2004). Organizational culture is important in determining the successful implementation of strategies and achieving company performance goals (Lee & Yu, 2004). Human resources can increase company quality and talents. As a result, human resources should be able to attend and conduct training to help the company achieve its objectives. According to the findings, the impact of the training-accounting adoption link is moderated by organizational culture. These findings demonstrate that organizational culture can help to reinforce the link between training and the adoption of AA. This study is in line with Aswar (2018), who shows that organizational culture can reinforce the effects of training and AA adoption. Therefore, a cultural presence is crucial and can develop good training programs (Siegal & Sussman, 2003). This is consistent with normative isomorphism institutional theory about professional talents, in which the organizational culture chosen and implemented encourages the provision of training to help local governments establish an accrual-based accounting system.

A good and maintained level of communication is associated with sound organizational culture. This goal requires good communication between individuals in the organization. Organizational cul-

ture encouraging open communication promotes the process of organizational learning that leads to the effective implementation of a system. An open and optimistic organizational culture facilitates the most significant engagement and better communication, thereby enhancing implementation of the system. These findings suggest that organizational culture may improve the relationship between communication and accrual accounting adoption. This study's findings are in line with Nah et al. (2007), who noted that for the successful implementation of ERP, organizational culture moderates the relationship between communication and successful ERP implementation. According to institutional theory, good communication can promote individual quality, which is a normative isomorphism in this context. Therefore, applying organizational culture to establish and maintain open and supportive communication can encourage increased interaction and accrual accounting adoption.

According to the human capital hypothesis, education instills knowledge, skills, and values in people, allowing them to boost their learning capacity and productivity. A good teamwork and mutual support system is frequently related to organizational culture. Application of organizational culture that supports good cooperation can assist certain parties/individuals with less privileged backgrounds so they are able to build and become more skilled. These findings show that organizational culture does not affect the relationship between educational background and AA adoption. This is inconsistent with the normative isomorphism institutional theory regarding professional demands, where organizational culture in terms of teamwork can support individuals. Since corporate culture cannot reinforce the effects of educational background on efficient AA adoption, individuals can be assisted in adopting AA.

CONCLUSION

The aim of this study was to verify and assess the impact of training, communication, and educational background on accrual accounting application, with organizational culture as a moderator. Based on the results and discussion, training has a favorable impact on AA adoption. Good training can improve and facilitate the adoption of AA. Communication has a significant and positive impact on AA adoption. The establishment of a good level of communication can provide information that can improve the adoption of AA. Educational background has no significant effect on AA adoption. Respondents from educational backgrounds in accounting, management, or economics do not affect AA adoption level.

Furthermore, the link between training and the application of AA is moderated by organizational culture. This indicates that the organizational culture adopted and disseminated can strengthen the effect of training that can improve AA adoption. Furthermore, the impact of the relationship between communication and AA adoption is moderated by organizational culture. This indicates that the organizational culture adopted and disseminated can strengthen the influence of communication that can improve AA adoption. Finally, organizational culture does not moderate the link between educational background and the use of AA. This indicates that organizational culture does not affect educational background in increasing AA adoption.

There are several limitations in this study. First, there is a significant number (13) of questionnaires that have not been returned by respondents. Respondents are currently often outside their offices due to individual assignments or work from home (WHF) mode and are also constrained by the pandemic. Thus, respondents did not have enough time to fill out the questionnaires that have been distributed. Second, because the object is limited to the local government of Riau City, it is impossible to provide a more complete or detailed view of the Indonesian government's AA practices. It is expected to add other variables, such as project management support and consultant support. Data analysis regarding accrual accounting adoption is likely to be further complemented by interview approaches, particularly not just concentrating on regional apparatus organization in Riau. Furthermore, this study contributes to adopting a policy, specifically GAS, and gives infor-

mation on the issues and solutions local governments face when implementing AA systems. It can promote and strengthen public sector governance, as well as serve as public input in policymaking and ensure that local government is fully implemented.

AUTHOR CONTRIBUTIONS

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Data curation: Meilda Wiguna, Khoirul Aswar, Eka Hariyani, Mahendro Sumardjo, Azwir Nasir.

Formal analysis: Meilda Wiguna, Khoirul Aswar, Eka Hariyani.

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