

Village Financial Reporting and Local Government Performance: The Mediating Role of Institutional Isomorphism

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Abstract

This study investigates the factors influencing the preparation and utilization of village financial reports and their impact on local government performance, emphasizing the mediating role of institutional isomorphism. Using a mixed-method sequential explanatory design, data were collected from 100 villages in South Sulawesi, Indonesia. The quantitative phase involved surveys distributed to village heads, treasurers, and financial staff, followed by qualitative interviews to deepen the understanding of identified factors. Data were analyzed using regression and thematic analysis. Results reveal that technical capacity, regulatory compliance, and institutional pressures significantly affect the use of financial reports in decision-making. Coercive, mimetic, and normative isomorphism mechanisms mediate the relationship between financial reporting and performance. The findings contribute to developing an institutional-based performance measurement model for village governments. This study provides practical recommendations for enhancing accountability, transparency, and effectiveness in village financial management.

Keywords: *accountability; institutional isomorphism; local government performance; village financial reporting; transparency.*

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INTRODUCTION

Village governments play a strategic role in managing financial resources to support sustainable rural development and public service delivery. Financial reporting serves not only as a technical mechanism for recording and summarizing financial transactions but also as a vital governance instrument for ensuring transparency, accountability, and public trust (Mahmudi, 2019). Accurate and timely financial reports enable both internal decision-making and external oversight by higher authorities and citizens. However, despite the increasing volume of fiscal transfers to villages in Indonesia, the effectiveness of financial reporting remains a persistent challenge. Many villages still struggle with issues of compliance, inadequate technical capacity, and inconsistent implementation of accounting standards (Sari & Nugroho, 2021). According to Syachbrani (2012), a key constraint lies in the limited understanding of accounting principles among village officials, which often results in misstatements, incomplete documentation, and reporting delays. Such limitations

ultimately weaken the accountability framework and obscure the linkage between financial information and performance outcomes.

In Indonesia, village financial management is legally regulated through the Ministry of Home Affairs Regulation No. 80 of 2018, which mandates every village to prepare budget realization reports, statements of village wealth, and explanatory notes to financial statements (Kemendagri, 2018). This regulatory framework aims to standardize reporting practices and enhance the reliability of financial data used in governance and development planning. Nonetheless, compliance levels vary widely across regions. While some villages—particularly those with better administrative infrastructure—have adopted computerized accounting systems, many others still rely on manual bookkeeping prone to error, manipulation, and inefficiency (Putra, 2022). The lack of internal control mechanisms and limited supervision by higher-level governments further exacerbate inconsistencies in financial reporting practices.

To understand these variations, this study applies institutional theory, specifically the concept of institutional isomorphism introduced by DiMaggio and Powell (1983). Institutional isomorphism refers to the process by which organizations within a similar field tend to become more homogeneous due to various pressures—coercive, mimetic, and normative. Coercive isomorphism arises from formal and informal pressures exerted by regulatory institutions or authorities, compelling village governments to conform to prescribed accounting standards. Mimetic isomorphism emerges when organizations imitate the successful practices of their peers, particularly under conditions of uncertainty or lack of expertise. Normative isomorphism, on the other hand, is shaped by the influence of professional norms, education, and shared values among accountants, auditors, and village financial officers (Setyaningrum, 2020). These three mechanisms jointly shape how villages perceive and respond to external expectations regarding transparency and accountability.

This study aims to analyze how these institutional pressures influence the preparation and utilization of village financial reports and how these processes, in turn, affect local government performance. Specifically, it examines the extent to which coercive regulations, mimetic learning, and normative professionalization serve as mediating factors between financial reporting quality and performance outcomes. The research employs a mixed-method sequential explanatory design, combining quantitative and qualitative approaches to provide a comprehensive understanding of the phenomenon. Quantitative data are collected through surveys administered to village heads, treasurers, and financial staff across 100 villages in South Sulawesi Province, Indonesia. The quantitative phase identifies the key determinants of financial reporting practices and tests the hypothesized relationships among variables using multiple regression analysis.

Subsequently, the qualitative phase involves in-depth interviews with selected respondents to explore the contextual nuances of institutional pressures and their impact on reporting behavior. Thematic analysis Braun & Clarke (2006) is employed to extract patterns, motivations, and interpretations from participants' narratives. This approach allows triangulation of data and enhances the validity of findings by integrating numerical evidence with rich contextual insights.

Preliminary findings indicate that technical competence, regulatory clarity, and institutional alignment significantly influence the effectiveness of financial reporting. Moreover, the three dimensions of isomorphism play a mediating role in

enhancing performance through improved compliance, learning, and professional ethics. Villages that experience strong coercive and mimetic pressures tend to produce more consistent and decision-relevant financial reports, leading to better planning and budget execution. Conversely, the absence of normative reinforcement through professional training limits the sustainability of reporting improvements.

The contribution of this study lies in the development of an institutional-based performance measurement model that links financial reporting quality with governance outcomes. The findings provide both theoretical and practical implications for strengthening local accountability systems. Theoretically, the research expands the application of institutional isomorphism in public sector accounting at the micro-government level. Practically, it offers evidence-based recommendations for policymakers to design capacity-building initiatives and regulatory frameworks that not only enforce compliance but also foster adaptive learning among village governments.

Overall, this study underscores that enhancing the quality and use of village financial reports is not merely a technical issue but also an institutional and behavioral process shaped by external pressures and internal capacities. Strengthening institutional mechanisms that promote transparency and professionalism is essential to improving governance performance and achieving sustainable rural development in Indonesia.

METHODOLOGY

1. Research Design

This study adopts a quantitative explanatory design using a cross-sectional survey approach to examine the relationship between institutional isomorphism, village financial reporting practices, and local government performance. The research seeks to empirically validate whether institutional pressures—coercive, mimetic, and normative—significantly affect the preparation and utilization of financial reports in Indonesian village governments, and how these reports subsequently influence local government performance. A Partial Least Squares–Structural Equation Modeling (PLS-SEM) approach is employed to test the hypotheses, considering the study’s latent constructs and the relatively small-to-medium sample size (Hair Jr, et al., 2021).

2. Population and Sample

The population of this study comprises all village governments in South Sulawesi Province, Indonesia. A total of 100 villages were selected using purposive sampling, based on the following criteria: (1) villages that have prepared annual financial reports for at least two consecutive fiscal years, (2) accessibility of accounting data and officials, and (3) willingness of village officers to participate in the survey. Data were collected through structured questionnaires distributed to village heads, financial officers, and accounting staff, achieving a response rate of 98%, which is considered highly satisfactory for PLS-SEM analysis.

3. Variables and Measurement

The research model involves four main variables:

- Institutional Isomorphism (X) – measured through three dimensions:
 - Coercive isomorphism: pressure from regulatory compliance and oversight institutions (e.g., Ministry of Home Affairs, Inspectorate).
 - Mimetic isomorphism: adoption of best practices from other successful villages.
 - Normative isomorphism: influence of shared professional standards and training among village officials.
- Village Financial Reporting (M) – treated as a mediating variable, representing the quality of financial reporting in terms of accuracy, transparency, timeliness, and completeness, adapted from Mahmudi (2019) and Putra et al. (2022).
- Local Government Performance (Y) – the dependent variable, reflecting financial accountability, governance effectiveness, and service delivery outcomes, measured through performance indicators set by the Ministry of Home Affairs Regulation No. 113/2014.
- Control Variables – village size (measured by population) and administrative experience of financial officers.

Each dimension was assessed using a 5-point Likert scale adapted from (DiMaggio & Powell, 1983) and (Setyaningrum, 2020).

4. Conceptual Framework and Hypotheses

The study assumes that institutional pressures influence both the preparation and use of financial reports, which in turn affect local government performance. Financial reporting acts as a mediator that links institutional isomorphism with performance outcomes.

Based on the literature review and theoretical framework, the following hypotheses are proposed:

- **H1:** Coercive isomorphism positively influences the quality of village financial reporting.
- **H2:** Mimetic isomorphism positively influences the quality of village financial reporting.
- **H3:** Normative isomorphism positively influences the quality of village financial reporting.
- **H4:** The quality of village financial reporting positively affects local government performance.
- **H5:** Village financial reporting mediates the relationship between institutional isomorphism and local government performance.

5. Data Analysis

Data were analyzed using SmartPLS 4.0 software. The analysis followed two stages: (1) Measurement model evaluation, to test indicator reliability, convergent validity, and discriminant validity; and (2) Structural model evaluation, to assess path coefficients, R² values, and significance levels through bootstrapping with 5,000 resamples. Mediation testing employed the indirect effects approach suggested by Hair Jr, et al., (2021).

RESULTS AND DISCUSSION

1. Descriptive Statistics

Out of 100 distributed questionnaires, 98 valid responses were returned, resulting in a 98% response rate. The majority of respondents were village financial officers (62%), followed by village secretaries (25%) and village heads (13%). In terms of educational background, 68% held a bachelor's degree, and 21% had received formal training in accounting or financial management. The average length of service among respondents was 6.4 years, indicating a moderately experienced sample.

2. Measurement Model Evaluation

The reliability and validity of constructs were first assessed. All constructs achieved composite reliability (CR) > 0.7 and average variance extracted (AVE) > 0.5, indicating internal consistency and convergent validity (Hair et al., 2021). The outer loadings of all indicators exceeded 0.70, and the Fornell-Larcker criterion confirmed discriminant validity. Hence, all latent constructs were suitable for further structural analysis.

3. Structural Model Evaluation

The R² value for village financial reporting (M) was 0.61, indicating that institutional isomorphism (coercive, mimetic, and normative) explained 61% of the variance in financial reporting quality. The R² for local government performance (Y) was 0.54, meaning that financial reporting explained 54% of the variation in performance outcomes.

Tabel 1. Test Result

Path	β	t-value	p-value	Result
Coercive → Reporting	0.34	4.12	0.000	Supported
Mimetic → Reporting	0.27	3.88	0.000	Supported
Normative → Reporting	0.22	2.97	0.003	Supported
Reporting → Performance	0.46	5.10	0.000	Supported
Indirect (Isomorphism → Reporting → Performance)	0.31	4.27	0.000	Supported

4. Discussion

The findings demonstrate that institutional isomorphism significantly influences the quality of village financial reporting, which in turn enhances local government performance. This result supports the theoretical model proposed by (DiMaggio & Powell, 1983), indicating that organizations, including village governments, tend to conform to institutional pressures to achieve legitimacy and improve performance outcomes.

The strong path coefficient ($\beta = 0.34$) indicates that regulatory and supervisory pressures—particularly from the Ministry of Home Affairs and the Inspectorate—play a decisive role in shaping financial reporting behavior. This aligns with Sari & Nugroho (2021), who found that compliance culture and administrative control mechanisms enhance reporting consistency across public sector entities.

Mimetic pressure also exerts a substantial impact ($\beta = 0.27$). Villages often imitate accounting practices from better-performing counterparts, adopting

standardized templates or software systems (Putra, 2022). This imitation fosters diffusion of innovation and narrows the quality gap among villages with varying administrative capacities.

The influence of professional norms ($\beta = 0.22$) underscores the importance of training and capacity-building programs. Villages whose officials have undergone financial management workshops tend to produce more transparent and timely reports, confirming the argument of Setyaningrum (2020) that professionalization contributes to governance quality.

The significant indirect effect ($\beta = 0.31$) validates the mediating role of financial reporting. This suggests that institutional pressures alone do not directly improve local government performance unless they are translated into better reporting practices. In other words, quality financial reporting acts as a transmission mechanism that converts institutional conformity into tangible governance outcomes. This finding echoes the perspective of Mahmudi (2019) that transparent financial information enables more effective decision-making, budget monitoring, and community trust.

Empirically, these results highlight the importance of strengthening technical competence and institutional alignment in local financial governance. Policymakers should not only enforce compliance but also promote peer learning and professional training to sustain high-quality financial reporting. From a theoretical standpoint, the results extend the application of institutional theory in the context of village governance in Indonesia, offering new evidence that isomorphism mechanisms are both determinants and enablers of performance improvement at the local level.

CONCLUSION

This study concludes that institutional isomorphism—comprising coercive, mimetic, and normative pressures—significantly influences the quality of village financial reporting, which subsequently enhances local government performance. Coercive pressures from regulations and oversight bodies ensure compliance; mimetic pressures encourage the adoption of best practices among villages; and normative pressures strengthen professionalism through training and shared values. Financial reporting serves as a key mediating mechanism, transforming institutional conformity into improved decision-making, transparency, and accountability.

These findings reinforce the relevance of institutional theory in explaining variations in local governance performance and demonstrate that legitimacy-driven behaviors can yield substantive benefits when supported by adequate technical capacity.

Based on the results, several recommendations are proposed. First, capacity-building programs should be intensified to strengthen the accounting and reporting competence of village officials. Second, peer-learning initiatives among villages should be institutionalized to facilitate mimetic improvement in financial management practices. Third, local governments and inspectorates must ensure that regulatory enforcement is balanced with guidance and technical support, not merely compliance checks.

Overall, enhancing professional standards and institutional collaboration will sustain the quality of village financial reporting, contributing to more transparent, accountable, and performance-oriented governance in rural Indonesia.

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