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Why dynamic capacity influences the quality of management accounting Information systems in the public sector?

Dian Wahyuningsih[1], Dio Caisar Darma[2*], R. Ayke Nuraliaty[3], Jati Kasuma[4], Tănase Tasenţe[5], Siti Maria[6], Denis Ushakov[7], Sriwardani[8]

Abstract

The effectiveness of management accounting systems is also influenced by the dynamic capabilities of companies, where changing conditions and environments require changing management accounting information systems caused by sociological, technological, economic, and political factors. Thus, the pattern of organizational action will not involve the simplification, selectivity, and ties attached to each type of strategic action. Internal, external environment that is always changing will affect the management of accounting systems and organizational goals. The public sector with the existence of new public management will require dynamic capacity which will ultimately affect management accounting information systems. This study discusses the dynamic capacity carried out in the public sector to influence management accounting information systems. This study uses the literature review method to examine a variety of literature relating to dynamic capacity and management accounting information systems in the public sector. The results of this study found a dynamic need (government local, state, and local enterprises) for the quality of management accounting information systems in the public sector.

Contribution/ Originality: *This study will have dynamic capacity in the public good scores in institutions of government local, state, and local enterprises still requires a piece of system information are better able to follow the dynamic environment.*

Keywords: *Dynamic capacity, Accounting information systems, Management information systems, Public sector.*

JEL Classifications: O30, M48, G38, H83

[1] Department of Management, Faculty of Economics and Business, Langlangbuana University, Bandung, 40261, Indonesia.
[2] Department of Management, Sekolah Tinggi Ilmu Ekonomi Samarinda, Samarinda, 75242, Indonesia. Email: diocaisar@stiesam.ac.id
[3] Department of Accounting, Faculty of Economics and Business, Langlangbuana University, Bandung, 40261, Indonesia
[4] Faculty of Business and Management, UiTM (Sarawak Campus), Samarahan, 94300, Malaysia
[5] Faculty of Law and Administrative Sciences, Ovidius University of Constanţa, Constanţa, 900573, Romania
[6] Department of Management, Faculty of Economics and Business, Mulawarman University, Samarinda, 75117, Indonesia
[7] Ast. professor, Suan Sunandha Rajabhat University, Bangkok, 10300, Thailand
[8] Department of Management, Faculty of Economics and Business, Langlangbuana University, Bandung, 40261, Indonesia

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I. INTRODUCTION

The company's dynamic capability is the company's ability to manage internal and external competencies to deal with environmental changes that are more competitive than its competitors (Leoncini & Montresor, 2008). As such, companies must have the important ability to continually reconfigure, update, and transfer resources and the ability to better capture and make us of opportunities for change (Teece et al., 1997).

In the private sector, dynamic capability approaches have become the usual theoretical framework for analyzing how organizations change. Organizations in the public sector face more environmental changes than private sector companies (for example due to frequent policy changes). This capability is increasingly seen as a determining factor in the success of public sector organizations (Piening, 2013; Novianty, 2018; Salge & Vera, 2012).

Accounting information system (AIS) is acknowledged as an effective tool to deal with the exterior and interior changes (Shagari et al., 2017) through processing data and transaction to generating useful information for planning, controlling, and operating the organizational activities (Romney et al., 1997) as well as facilitating and gaining organizational performance (Saganuwan et al., 2013).

The dynamic business environment in conjunction with the claim on integrating sustainability as a part of the organizational strategy, environmental impact assessment, and disclosure has caused pressures on public sector organizations (PSOs) to make assurance. For the generation of an organization that generates efficiency and effectiveness in satisfying the citizens' demands (Nylén, 2007; Epstein, 2008; Ofoegbu et al., 2018).

The dynamic capability in product development mainly examines the processes used to solve problems related to concept development, product engineering, pilot production processes, and market introduction (Marsh &Stock, 2006).

The dynamic capability is applied in management accounting to show how the application of certain techniques in certain organizational settings can provide informed decisions that are useful for capacity building and substantive improvement in the resource base. With this, it can be concluded that dynamic capability affects the management accounting information system (Collier & Knight, 2009).

For example, the quality of financial reports in the government sector has received global focus and has been very recent, along with the failure of the Greek economy which has had a wide-ranging impact on countries in the European Union, America, and Asia. The debt crisis in Yunnan was triggered due to the lack of quality financial information, which led to poor decision making in the management of state finances (Serafeim, 2015).

The dynamic capability is implemented in AIS management to show how the application of specific techniques in specific organizational arrangements can provide decision-useful information for upgrading and substantive improvement in the resource base (Collier & Knight, 2009). Then, Alpenberg & Scarbrough (2013) examined public companies in Sweden that dynamic capability is related to management accounting practices in product development and target costing implementation.

That dynamic capability is the ability of organizations to make changes continuously productively by using existing resources in overcoming various environmental changes for competitive advantage (Teece et al., 2019; Leoncini & Montresor, 2008; Helfat et al., 2007; Eisenhardt & Martin, 2000; Wang & Ahmed, 2007; Heidmaan, 2008; Pablo et al., 2007).

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Table 1. **Difference between ordinary capability and dynamic capability**

Indicators	Ordinary Capability	Dynamic Capability
Purpose	Technical efficiency in business functions	Congruence with customer needs and with technological and business opportunities
Tripartite Schema	Operate, administrate, and govern	Sense, seize, and transform
Key routines	Best practices	Signature (upgraded) processes
Managerial emphasis	Cost control	Cost control; Entrepreneurial asset orchestration, leadership, and learning; Priority
Priority	Doing things right	Doing the right things
Imitability	Relatively imitable	Inimitable
Result	Technical fitness (static efficiency)	Evolutionary fitness (ongoing learning, capability enhancement, and alignment)

Source: Teece (2012)

Table 1 displays change as the basic essence of dynamic governance, the two elements of dynamic governance (Neo & Chen, 2007). The culture of government organizations covers; integrity, incorruptibility, meritocracy (based on talent and ability/achievement), market (orientation of the market that is fair), pragmatism (easy to adjust / more oriented to the achievement of the purpose of the state, multi-racialism (various ethnic and trust), including also the culture is; activity state (state activism), plans and objectives -term-long (long term), policies that suit the will of the people (relevance), growth, stability, wise (prudence), and independent (self-reliance). The ability of the dynamic includes: thinking ahead (think to the front), thinking again (reviewing reset), and thinking across (to learn from the experience of countries/organizations).

However, this does not necessarily become an indicator of the success of the regional government. Regional governments that obtain a fair opinion without exception, means that they have been able to adequately manage the mandated finances. It also shows the government's commitment to realize management following the principles of good government. The purpose of this research is to examine whether a dynamic capacity influences management accounting information systems in the public sector. The research implications are very useful as insights on the focus of structuring human resources, internal control systems, the effectiveness of accounting information systems, and the quality of information on public financial statements.

This study uses a literature review method that uses library data as the main data source. A literature review is a description of studies relevant to a particular field or topic. His discussion of information on subjects was with the latest

reference in the last few years. The process includes reading, analyzing, evaluating, and summarizing material specifically.

In this context the literature review has been carried out on dynamic capacity and its influence on the quality of management accounting information systems in the public sector, thus the purpose of this study is to provide a view of previous studies that have existed.

II. RELATED LITERATURE

Thus the organizational dynamic capability is produced by able people, thus forming an agile process (effective, efficient, and responsive) during the policy formulation and evaluation stage. This was identified by the organization's ability to think ahead (anticipate future developments), think again (evaluate the actual implementation of policies), and think across (study extrapolation and interpolation in different contexts). The dynamic capability has three elements of dynamic governance namely Think ahead, Think again, and Think across. All three thinking abilities must be incorporated into the policy choice, implementation, and evaluation approach so that effective change becomes a reality (Anwar, 2010; Neo & Chen, 2007).

The framework of dynamic governance is shown in Figure 1, where the foundation of dynamic governance is an institutionalized culture, two main influences (able people and agile processes) to develop three dynamic governance capabilities are shown on the left side of the image. External factors by future uncertainties and external practices are shown in the shape of the box on the left side of the image.

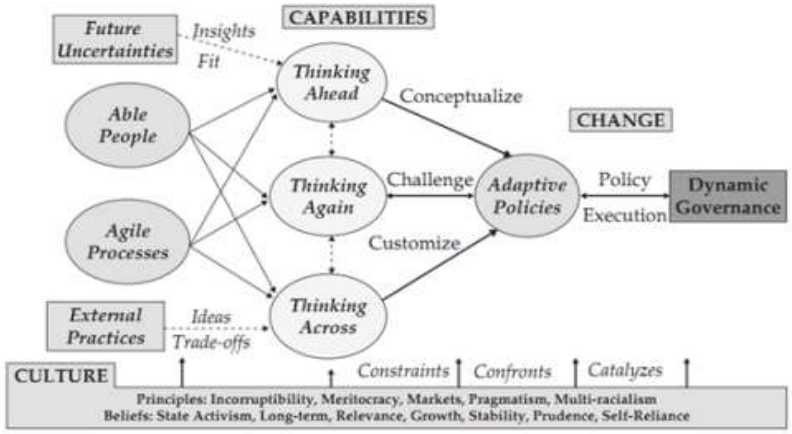

Figure 1. Framework for dynamic governance system

Source: Neo & Chen (2007)

Only then can the path is chosen to go beyond the footsteps of the founders to create innovations in strategies and policies to meet new requirements for success (Neo and Chen, 2007). Thinking ahead, which is the ability to identify future environmental developments, understand various socio-economic impacts, and identify strategic investments and options needed so that people can take advantage of new opportunities and anticipate potential threats

that can hamper progress in the community. The process of thinking ahead includes: (1) Exploring the possibilities and anticipating future trends that have a significant impact on policy objectives; (2) Understand how the impact of development on the achievement of ongoing goals, and test the effectiveness of strategies, policies, and programs that are running; (3) Determine strategies for what options can be used to anticipate emerging threats and explore new opportunities; and (4) Influence decision-makers and stakeholders to consider issues that occur seriously and involve them in strategic discussions to listen to possible responses.

Thinking again, the ability to deal with current conditions regarding the performance of current strategies, policies, and programs, and then redesign those strategies, policies, and programs to achieve better results and quality. The process of thinking again includes: (1) Reviewing and analyzing actual performance data and understanding public feedback; (2) Investigate the cause of the feedback or observe facts, information, and behavior, or both to obtain or eliminate targets; (3) Review strategies, policies, and programs to identify activities whether running well or not; (4) Redesign existing policies and programs, in part or whole, so that performance can be improved and targets can be achieved better; and (5) Implementing new policies and systems so that people and consumers get the best service and enjoy useful results.

Thinking across, namely the ability to cross traditional ways / traditional boundaries by learning from the experiences of others so that good ideas can be adopted and adjusted to new and innovative policies or programs to be tested and institutionalized. The process of thinking across includes: (1) Finding new and interesting practices that are adopted and implemented by others who have more or less the same problem; (2) Describe what they have done, why and how they did it, and learn from the experiences of others; (3) Evaluate what might apply to the local context, taking into account the unique/different conditions and conditions, and what will be accepted by the local population; (4) Find connections between different combinations of new ideas that can create innovative approaches to problems faced/arise; (5) Adjust policies and programs that are appropriate to local policies and community needs.

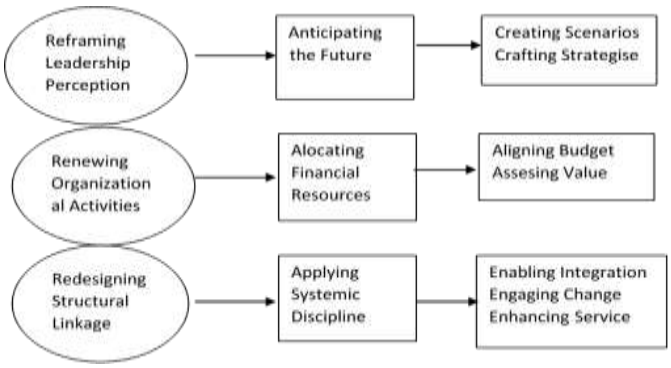

Figure 2. The creation process for dynamic governance

From the picture above Neo & Chen (2007) explain how dynamic capability affects the Singapore government through various improvements and innovations in various fields. Dynamic governance is created by organizational processes: refraining leadership perceptions, renewing organizational activities, and redesigning structural relationships (Neo & Chen, 2007). There are three dynamic capability processes in public sector organizations: (1) Anticipating the future; (2) Allocate financial resources; (3) Implement systemic discipline.

Based on the definition, dimensions or characteristics of dynamic capability described above, the dimensions for measuring dynamic capability are: (1) Thinking ahead, which is the ability to identify the development environment to the direction of future ahead, understand the various kinds of impact importance to the socio-economic, and identify investment strategic and variety of choice that is necessary to enable the public take advantage of opportunities for new and to anticipate potential threat; (2) Thinking again is the ability to face the situation when it regarding the performance of strategies, policies, and programs that exist, and then designing the strategies, policies, and programs are to achieve the results and quality are much better; and (3) Thinking across is the ability to dare to change the ways of the old limit to learn from the experience of others so that ideas that both can be adopted and adapted to allow innovate with the policy or program new as well as for test try and familiarized.

The management accounting information system as a formal accounting system that provides information about costs, revenues, and income (Bhimani, 2003). Then, the management accounting information system is a process that explains collecting, classifying, measuring, storing analyzing, reporting after managing information (Hansen & Mowen, 2007). Management accounting information system is a formal system for preparing and providing information from the internal and external environment that helps managers to monitor organizational performance (Heidmann, 2008). So it can be said that the management accounting information system is a formal system that produces information from external and internal environments that help managers meet organizational goals.

In implementing a quality management accounting information system, it is very important to focus on how to produce quality management accounting information (Rani & Kidane, 2012). Quality management accounting information is a reflection of the results of processing quality management accounting information systems (Heidmann et al., 2008).

Thus, it can be concluded that what is meant by the quality of management accounting information systems in this study is the ability of information systems to provide quality management accounting information that is useful for managers in carrying out management processes.

The role of information in the context of public sector organizations related to policy accountability can be seen in Figure 3.

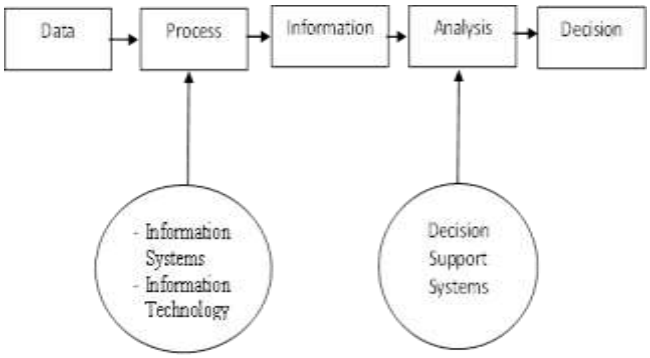

Figure 3. Management information system

System information accounting management generating information for users internal, such as managers, executives, and workers so accounting management can be referred to as accounting internally and are specifically

accountant management to identify, collect, measure, classify and report information that is useful for users internally within a plan, control and make the decision (Hansen & Mowen, 2007).

In more detail to explain the dimensions of the system of management accounting information (SIAM) first, Integration, "measures the degree to roommates a system facilitates the combination of information from various sources to support business decisions". Where Integrasi stressed the ability of information systems to coordinate various segments in subunits (Heidmann et al., 2008; Marsh & Stock, 2006).

The second dimension of SIAM Quality according is Flexibility. Heidmann et al. (2008) explain: "Flexibility measures the degree to which a system can adapt to a variety of user needs and change conditions". It can be interpreted that a flexible system can be measured from the level at which the system can adapt to various kinds of user needs and can adapt to various changes in conditions that occur in the organization. The third dimension of the quality of SIAM is Accessibility. Heidmann et al. (2008) explain that "Accessibility measures the degree to which a system and the information it contains can be accessed with relatively low effort". From this understanding, it can be said that Accessibility measures the rate at which the system and the information contained therein can be easily accessed.

The next dimension of SIAM quality is Formalization. Heidmann et al. (2008) explained that "Formalization measures the degree to which a system contains rules or procedures". The last dimension of SIAM quality (Heidmann et al., 2008) is Media Richness. Heidmann et al. (2008) explain that "Media Richness measures the degree to which a system uses channels that enable a high level of personal interaction".

III. DYNAMIC CAPACITY INFLUENCES

Changing and dynamic environment will affect the design of management accounting information systems in an organization (Sher & Lee, 2004; Teece, 2016). Dynamic capability emphasizes learning entrepreneurship, innovation, and how to have a good strategy in a company. Organizations need a flexible process to cope with various changes and dynamic capabilities are ways that organizations do to respond to rapid environmental changes (Wohlgemuth & Wenzel, 2016; Sher & Lee, 2004).

Organizations in carrying out activities have two capabilities, i.e ordinary and dynamic. The ordinary capability involves the performance of administrative, operational, and governance functions needed for the implementation of the current plan. In other words, Ordinary capability is the organization's routine operational activities according to the targets and plans that have been set (Zolo & Winter, 2002). Dynamic capability is a high level of activity that enables the ordinary capability to develop new capabilities, and coordinate (or "manage") internal and external sources effectively to cope with changing business environments.

Table 2. Difference between ordinary capability and dynamic capability

Researcher	Year	Results
Anwar	2010	Able people are only suitable for thinking again, while agile process is suitable for thinking

		ahead and thinking across.
Marsh & Stock	2006	dynamic capability in the development of products researching the process used to solve a problem that is associated with the development of the concept, engineering products and processes, the production model, and the introduction of market.
Prieto et al.	2009	Dynamic capability to form the competence development of the product and that the context which is characterized by a combination of autonomy, support management of performance, and the trust is able to facilitate dynamic capability for the development of the products are sustainable.
Eisenhardt & Martin	2009	Dynamic Capability applied in accounting management to show how the application of the techniques specified in setting the organization particular can provide decision information that is useful for the improvement of capabilities and increase the substantive in the base source of power.
Alpenberg & Scarbrough	2013	Dynamicapability relates to management accounting prac tices in product development and implementation of target costing.
Yohanes et al.	2017	Dynamic capability has a positive effect on SAP Implementation in the Kediri district government SKPD
Novianty et al.	2018	Dynamic capacity affects the quality of management accounting information systems.

Dynamic capacity as an organization's ability to make changes continuously with existing resources to cope with an ever-changing environment will make information systems including accounting information systems both financial accounting and management accounting must be flexible in dealing with a dynamic business environment. The company's ability to change will emphasize the importance of entrepreneurship, innovation, and a good strategy, so the company will need a flexible process to facilitate the company in dealing with changes and dynamic capacity. This is the way that organizations do to respond to the rapid changes in the environment (Teece, 2009).

In a dynamic and turbulent environment that demands fast and detailed information, this results in accounting information systems must also be dynamic and be able to respond to changes that occur both externally and internally (Sher & Lee, 2004; Wohlgemuth & Wenzel, 2016). In other words, the accounting information system must be more responsive to a dynamic business environment and must be well integrated into its accounting process and overall company performance.

The dynamic capability in product development examines mainly processes used to solve problems related to concept development, product and process engineering, pilot production, and market introduction (Marsh & Stock, 2006). The dynamic capability shapes product development competencies and that contexts characterized by a combination of autonomy, performance management, support, and trust are more able to facilitate dynamic capability for sustainable product development (Prieto et al., 2009).

IV. QUALITY OF MANAGEMENT ACCOUNTING INFORMATION SYSTEMS

In the public sector in the government environment, government institutions have a significant impact on the growth of competitiveness, economy, and social in a country (Neo & Chen, 2007; Anwar, 2010). The government is expected to create a productive and innovative environment continuously through various policies and their implementation To improve the quality of even better services. In this case, the government is required to be able to do good governance. The main key to dynamic governance is to place human resources and processes (Hermano & Cruz, 2016). This is following the research of Yohanes et al. (2008) that dynamic capacity influences SAP on SKPD in Jebrana Bali. The conducted a study on local government in Indonesia and found that the dynamic capacitance effect on quality s management accounting information (Lin et al., 2016).

The benefit that can be obtained from the government accounting standards is that the financial statements that are produced can provide open, honest, and comprehensive financial information to stakeholders. Besides, within the scope of management can facilitate the planning, management, and control functions of assets, liabilities, and equity of government funds. The next benefit is an intergenerational balance which can provide information on the adequacy of government revenues to finance all expenditures and whether future generations share in the burden of these expenditures. The resulting financial statements can also be responsible for managing and implementing resource policies in achieving their goals (Wibowo, 2014).

Several countries have reformed public sector accounting in their environment, especially the change from cash basis to accrual basis. New Zealand is an example of a country that has successfully implemented an accrual basis system since 1991. The system implemented in this country has been able to make a large contribution in producing more comprehensive information, compared to the cash basis system in terms of quality and quantity.

The purpose of introducing this accrual basis is to facilitate greater transparency in government organizations and increase efficiency and effectiveness. Meanwhile, several other EU countries still control spending by using a cash basis (Mardiasmo, 2009). However, several cases show that reforms towards accrual basis do not necessarily guarantee success. The case in Italy shows that the introduction of an accrual basis contributed less significantly to the transparency, efficiency, and effectiveness of public organizations in the country.

Through the system, a collection of sources power consisting of sub-systems that interact with each other, connected in such a way, and work together to achieve a common goal. The system itself was created to facilitate an

activity that is usually repeated, it is important to know whether the system used is functioning optimally and support the achievement of the goals of the system created or no.

The discussion of the role of management accounting is as an information processing system finance is intended as an information processing process for meeting the needs of management in carrying out the planning function, coordination, and control of the organization. Meanwhile, management accounting as a type of information is intended as a description of the information generated by processing financial information. Information is a fact, observational data, perception, or something else that adds to knowledge. Information is needed by humans to reduce uncertainties in decision-making. Decision making always involves a period that will come, which contains uncertainty, and always concerns election an alternative action among the many alternatives available.

V. CONCLUSION

In this study, it can be concluded that dynamic capacity influences the quality of management accounting information systems. Dynamic capacity in the public good scores in institutions of government local, state, and local enterprises still requires a piece of system information are better able to follow the dynamic environment so that it can serve the community well. The effectiveness of an accounting information system in public sector organizations is well recognized to play an important part in obtaining sustainable performance. Nevertheless, the effectiveness of AIS cannot achieve the SP on its own due to the rapid change in the global economic world (Huy & Phuc, 2020).

Characteristics of the public sector that have limited access to resources, causing the accumulation of strategic resources is not the only factor that must be considered, so that the implementation of AIS can run optimally (Pablo et al., 2007). Successful implementation of accrual-based accounting must be based more on the capability of the organization is changing and combining existing resources to achieve the expected changes. Dynamic capability is the key that must be considered so that the government can manage changes in accounting standards properly and produce excellent financial report quality.

To be able to get high-quality public services at a low cost, the government must adopt a modern management accounting information system. Basically, public organizations can also apply management accounting techniques applied in the private sector, such as activity-based costing, job costing, batch costing, and standard costing to determine the cost of products or services. There is indeed a slight difference between the private sector and the public sector in terms of determining the cost of products or services. That is because most of the costs in the private sector tend to be engineered costs that have a direct relationship with the output produced. Meanwhile, costs in the public sector are largely discretionary costs that are set at the beginning of the budget period and often do not have a direct relationship between the activities carried out and the outputs generated.

Most output generated in the public sector is measured intangible output. Because the high costs incurred in the public sector are discretionary costs, the role of public managers is important in controlling costs. Public sector management accounting is very closely related to the process of program selection, costing, program benefits, and budgeting. Public sector management accounting also functions to facilitate the creation of effective, efficient, and economical public sector budgets (value for money budget).

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