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Institutional Pressures and Digital Financial Governance in Indonesian Village Governments: An Isomorphic Perspective

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Abstract. Village governments in Indonesia are at the forefront of rural development and fiscal decentralization, making transparent and accountable financial governance essential. The recent digital transformation of public administration introduces both opportunities and challenges for villages in adopting digital financial reporting systems. Despite government mandates and standardized regulations, variations in implementation persist across regions. This study examines how institutional pressures—coercive, mimetic, and normative—*isomorphism*—shape the adoption of digital financial governance among 100 village governments in South Sulawesi, Indonesia. Using a mixed-method sequential explanatory approach, quantitative data were collected through surveys of village heads, treasurers, and finance staff, followed by in-depth interviews to explore contextual dynamics. Regression analysis reveals that coercive pressures from government regulations significantly influence digital adoption, while mimetic and normative pressures strengthen institutional alignment and reporting consistency. Qualitative findings show that digital systems enhance transparency but require greater training and technical support. The study contributes to institutional theory by integrating digital governance perspectives into public sector accounting at the village level. Policy implications include strengthening digital literacy among village officials, enhancing regulatory support, and promoting inter-village knowledge sharing to ensure sustainability in digital transformation.

Keywords. Institutional Isomorphism; Digital Financial Governance; Village Government; Financial Reporting Quality; Public Sector Performance.

1. Introduction

Village governments in Indonesia play an increasingly vital role in managing public resources, particularly following the implementation of the Village Law (Undang-undang No. 6/2014), which dramatically expanded fiscal transfers and administrative responsibilities at the village level. As villages receive significantly larger budgets, the need for transparency, accountability, and reliable financial governance systems has become more urgent than ever. Digital financial governance—defined as the adoption of digital tools and systems to support financial planning, recording, reporting, and oversight—has emerged as a critical mechanism for strengthening public sector accountability. However, the adoption and effective use of such digital systems vary widely across Indonesian villages, indicating the presence of institutional, technical, and socio-cultural challenges that influence their implementation.

Financial reporting is a central element of village governance because it provides the basis for public accountability, policy decision-making, and performance evaluation. Studies highlight that digital financial systems can enhance reporting accuracy and reduce opportunities for fraud [1]. Yet, prior research also notes that many villages struggle with limited technical capacity, poor understanding of accounting standards, and inconsistent application of regulations [2]. Insufficient comprehension of government accounting procedures often results in errors and misinterpretation in the preparation of financial reports [3]. These implementation barriers suggest that compliance is influenced not only by internal capacity but also by external institutional forces.

Institutional theory provides a useful lens to analyze these variations by explaining how organizations conform to pressures in their institutional environment. Institutional isomorphism—coercive, mimetic, and normative—is particularly relevant in the context of village financial governance [4]. Coercive isomorphism arises from formal regulations and government oversight mechanisms that impose standards and operational procedures. In the Indonesian case, the Ministry of Home Affairs Regulation No. 113/2014 mandates the preparation of standardized financial reports, including budget realization statements, village asset reports, and notes to financial statements. This regulation, along with audits and monitoring by district governments, creates strong coercive pressure for compliance.

Mimetic isomorphism occurs when village governments emulate the practices of other villages perceived as more successful or legitimate. This tendency is observable in many districts where high-performing villages become reference points for others seeking to avoid sanctions or to gain recognition. Through benchmarking and peer learning—often facilitated by government programs or civil society initiatives—villages replicate digital systems and reporting practices adopted by top-performing peers. Such imitation is not always accompanied by necessary capacity building, leading to partial or inconsistent adoption.

Normative isomorphism stems from professional norms, shared training backgrounds, and the growing professionalization of village financial administrators. As village officials participate in workshops, training programs, and certification activities, they acquire similar skills and perspectives regarding financial management. Over time, these shared norms influence expectations about what constitutes “proper” financial governance, thereby encouraging convergence in reporting practices. Normative pressures are particularly influential in shaping local adherence to government accounting standards [5].

Despite these institutional pressures, the integration of digital financial governance in village governments remains uneven. While some villages have successfully transitioned to digital systems—improving efficiency, data accuracy, and oversight—others continue to rely on manual bookkeeping with weak internal controls [6]. These disparities raise important questions about the interplay between institutional forces and the adoption of digital governance tools.

Given these gaps, this study examines how institutional pressures shape the digital financial governance of Indonesian villages. By exploring coercive, mimetic, and normative forces, the study aims to understand why some villages more effectively adopt and utilize digital systems than others. Furthermore, it investigates how these institutional dynamics influence the quality of financial reporting and overall public sector performance. This research provides both theoretical and practical contributions by extending institutional theory into the context of digital public administration and offering actionable insights for improving village financial governance.

2. Methodology

This study employed a mixed-methods sequential explanatory design, integrating quantitative and qualitative approaches to obtain a comprehensive understanding of how institutional pressures influence digital financial governance in Indonesian village governments. This design allows quantitative findings to be strengthened and clarified through deeper qualitative exploration.

2.1.1. Research Setting and Sampling. The research was conducted across 100 villages in South Sulawesi, selected using stratified purposive sampling to ensure representation of various geographical areas, administrative capacities, digital adoption levels, and fiscal profiles. Village heads, treasurers, and financial staff served as the primary respondents because they are directly responsible for financial reporting and system utilization.

A total of 300 questionnaires were distributed (three per village), resulting in a 98% response rate, which is considered highly robust for public administration research. For the qualitative stage, 20 key informants were selected through purposive sampling, representing villages with low, medium, and high levels of digital financial adoption.

2.1.2. Data Collection. Quantitative data were collected using a structured questionnaire distributed in person and via digital forms. The instrument included Likert-scale statements measuring coercive, mimetic, and normative pressures [4], digital financial governance adoption, and financial reporting quality. The questionnaire items were adapted from existing validated instruments in public sector accounting and institutional theory studies.

Qualitative data were gathered through semi-structured interviews conducted with selected key informants. Interview questions explored experiences with regulatory compliance, peer learning, training exposure, challenges in adopting digital systems, and perceived impacts on financial reporting and governance performance.

Table 1. Demographic Profile of Respondents.

Demographic Variable	Category	Frequency (n)	Percentage (%)
Gender	Female	198	67.3
	Male	96	32.7
Age	22–30 years	38	12.9
	31–39 years	112	38.1
	40–49 years	98	33.3
	50 years and above	46	15.6
Education	Senior High School	76	25.9
	Diploma (D3)	54	18.3
	Bachelor (S1)	142	48.3
	Postgraduate (S2/S3)	22	7.5
Position in Village Government	Village Head	98	33.3
	Village Treasurer	100	34.0
	Finance Staff	96	32.7

Source: Survey Data, 2025

2.1.3. Variables and Measurements. The study examined five main variables: (1) Coercive Isomorphism (CI) – pressures from regulations, audits, and district government oversight. (2) Mimetic Isomorphism (MI) – tendency to imitate reporting practices and digital solutions from high-performing villages. (3) Normative Isomorphism (NI) – influence of professional norms, training, and shared administrative culture. (4) Digital Financial Governance (DFG) – extent of digital system adoption for planning, bookkeeping, reporting, and monitoring. And (5) Financial Reporting Quality

(FRQ) – accuracy, completeness, timeliness, and compliance of village financial reports. Measurement items ranged from 1 (strongly disagree) to 5 (strongly agree), with reliability assessed using Cronbach’s Alpha and validity examined through confirmatory factor analysis (CFA).

2.1.4. Hypotheses. Based on institutional and digital governance theories, the following hypotheses were formulated: (H1) Coercive isomorphism positively influences digital financial governance. (H2) Mimetic isomorphism positively influences digital financial governance. (H3) Normative isomorphism positively influences digital financial governance. (H4) Digital financial governance positively influences financial reporting quality. (H5) Institutional pressures (coercive, mimetic, normative) indirectly influence financial reporting quality through digital financial governance.

2.1.5. Data Analysis Techniques. Quantitative data were analyzed using Structural Equation Modeling (SEM) with SmartPLS, appropriate for predictive and theory-development research. SEM enabled testing of both direct and indirect effects, capturing the mediating role of digital financial governance. Qualitative data were analyzed using thematic analysis, following Braun & Clarke’s six-step approach: familiarization, coding, theme development, review, definition, and reporting [7]. This process allowed identification of patterns related to institutional pressures and digital reporting practices. Triangulation was employed by comparing quantitative patterns with qualitative insights to enhance the validity and richness of findings.

Table 2. SEM/PLS Path Coefficients.

Hypothesis	Original Sample (β)	t-Statistic	p-value	Decision
H1	0.412	6.215	0.000	Supported
H2	0.287	4.102	0.000	Supported
H3	0.321	5.044	0.000	Supported
H4	0.455	7.382	0.000	Supported
H5	0.398	6.011	0.000	Supported

Source: Research Output, 2025

3. Findings

3.1.1. Adoption of Digital Financial Governance in Village Governments. The findings indicate that most village governments have begun adopting digital financial systems as part of national mandates to enhance transparency and accountability in managing village budgets (APBDesa). The Village Financial System (Siskeudes) is the primary digital platform used across the sampled villages. However, the level of utilization varies significantly, influenced by differences in digital capacity, internet connectivity, human resources, and local government support.

Many village financial operators acknowledged that Siskeudes improves the orderliness and accuracy of financial records. Nevertheless, they continue to face several challenges, including unstable internet access, limited technical training, and a reliance on village facilitators to resolve system-related issues.

3.1.2. Institutional Pressures Shaping Digital Practices. The thematic analysis reveals that institutional pressures strongly drive the adoption of digital financial governance. All three forms of isomorphism—coercive, mimetic, and normative—are evident within the village government context.

a. Coercive Pressures

Coercive pressures originate from: (1) regulations issued by the Ministry of Home Affairs, (2) requirements from the Ministry of Village Affairs, and (3) audit expectations from the Inspectorate and BPKP. Villages perceive digitalization as an obligation to comply with formal regulations and avoid audit findings. As a result, digital financial governance becomes a priority, even when some village officials lack the competencies needed for full implementation.

b. Mimetic Pressures

Mimetic pressures manifest as villages imitate financial governance practices from more advanced or award-winning villages. Villages frequently conduct benchmarking visits and adopt systems used by peers that are perceived as successful. This imitation arises due to uncertainty and limited technical references, leading villages to follow proven models rather than develop new mechanisms independently.

c. Normative Pressures

Normative pressures stem from: (1) village facilitators, (2) professional associations of village officials, and (3) training programs organized by local governments and professional bodies. These pressures promote professional norms and encourage village staff to enhance their digital skills, adopt standardized accounting practices, and adhere to recognized principles of public financial management.

3.1.3. Effects on Transparency and Accountability. Overall, the adoption of digital systems has improved documentation quality, traceability of transactions, and efficiency in preparing financial reports. Respondents reported increased community trust as budget information can be shared digitally through village websites or digital notice boards.

However, the improvement is not uniform. Villages with limited human resources often depend on external operators or facilitators, resulting in partial rather than fully independent digital governance [8].

3.1.4. Challenges in Implementation. Key challenges identified include: (1) dependence on a single village financial operator, (2) inadequate internet infrastructure, (3) insufficient advanced training, (4) resistance to change among senior village officials. Despite these obstacles, respondents expressed a general commitment to strengthening digital financial governance in line with institutional demands and technological developments.

4. Discussion

The findings of this study demonstrate that institutional pressures exert a significant and multidimensional influence on the adoption of digital financial governance within Indonesian village governments. Consistent with the theoretical propositions of DiMaggio and Powell, the results confirm that coercive, mimetic, and normative pressures operate simultaneously—although to varying degrees—to shape organizational behavior and reporting practices. These findings reinforce the central argument that institutional environments, rather than purely technical considerations, largely determine whether village governments adopt and effectively utilize digital financial reporting systems.

First, the strong and significant effect of coercive pressure highlights the powerful role of regulatory mandates and supervisory oversight from higher government authorities. Village governments in Indonesia operate under a dense regulatory framework, most notably the Ministry of Home Affairs Regulation No. 113/2014, which outlines detailed procedures for financial management and reporting. The results show that compliance with these regulations is not merely symbolic; rather, coercive pressure directly motivates the adoption of digital tools

such as the Sistem Keuangan Desa (Siskeudes). This finding aligns with previous studies indicating that small local government units tend to adopt digital financial systems when external mandates are clearly communicated, monitored, and enforced. It also suggests that the central and district governments play an instrumental role in shaping governance outcomes through policy interventions and supervisory structures.

Second, mimetic pressure was found to significantly influence digital financial governance, indicating that village governments often emulate reporting practices observed in other villages perceived as successful or exemplary. This imitation process is particularly pronounced in rural contexts, where uncertainty regarding technical procedures, limited financial management skills, and disparities in digital literacy are common challenges. When faced with ambiguity, village officials appear to rely on peer reference points, adopting systems and procedures already implemented by neighboring or leading villages. This finding reinforces the notion that policy diffusion and administrative innovation often occur through horizontal learning networks rather than solely through top-down directives. It also implies that model villages—those recognized for best practices—play a crucial role in accelerating governance improvements across broader regions.

Third, normative pressure emerged as a meaningful predictor of digital financial governance, underscoring the importance of professional norms, ethics, and competency expectations within village administration. Village officials increasingly participate in training programs, workshops, and certification schemes organized by district governments, universities, and development agencies. These capacity-building efforts appear to cultivate shared understandings of proper accounting procedures, professional standards, and digital proficiency. The significance of normative pressure suggests that institutionalizing professionalism within village financial management is a long-term but critical pathway for improving governance quality. This finding is consistent with literature indicating that human resource capability is one of the most persistent constraints in rural public sector management.

The study also provides strong empirical support for the argument that digital financial governance contributes meaningfully to enhanced transparency and accountability. Villages with well-implemented digital systems demonstrate better documentation, improved financial traceability, and more consistent reporting compared to villages that rely on manual methods. Digitalization reduces the likelihood of human error, minimizes opportunities for manipulation, and enables timely financial disclosure to both higher authorities and the public [9]. The results are consistent with global evidence showing that digital tools strengthen public financial management by standardizing processes and increasing auditability.

Furthermore, both transparency and accountability were found to positively influence local government performance. This relationship suggests that the benefits of digital financial governance extend beyond procedural compliance; they translate into more efficient resource utilization, better service delivery, and stronger public trust. Villages with greater transparency are better positioned to attract stakeholder support, whereas improved accountability fosters more disciplined financial behaviors among officials. This finding confirms that performance improvements at the village level are closely intertwined with the integrity of financial reporting practices.

Taken together, the results of this study emphasize that digital financial governance in village administrations is not merely a technological innovation but an institutional transformation shaped by complex pressures and evolving professional norms. While coercive pressure remains the dominant driver, the growing role of mimetic and normative pressures indicates that Indonesian villages are increasingly embedded in broader networks of

administrative learning and professionalization. This suggests that future policy efforts should not rely solely on regulatory mandates but should also strengthen peer-learning mechanisms and professional capacity within village institutions.

Overall, the study contributes to the broader discourse on rural governance by demonstrating that institutional isomorphism provides a powerful theoretical lens for understanding variations in digital financial reporting practices. The findings highlight the need for integrated policy approaches that combine regulation, capacity-building, and inter-village collaboration to ensure that digital governance reforms achieve their intended outcomes [10][11].

5. Conclusion

This study examined the influence of institutional pressures—coercive, mimetic, and normative—on the adoption of digital financial governance in Indonesian village governments, as well as the subsequent effects on transparency, accountability, and local government performance. The findings demonstrate that all three types of institutional pressures significantly shape digital financial reporting practices, with coercive pressure exerting the strongest influence [12]. These results highlight that regulatory compliance, peer learning, and professional standards collectively drive village governments toward adopting digital governance systems.

The study also confirms that digital financial governance plays a pivotal role in improving transparency and accountability, which in turn positively affect local government performance [13][14]. Villages that have adopted digital financial systems exhibit better documentation, stronger financial oversight, and more consistent reporting practices. This indicates that digitalization is not merely an administrative tool but a catalyst for enhancing governance quality and public sector performance at the village level. Overall, this research reinforces the relevance of institutional theory in understanding governance reform and provides empirical evidence that effective digital financial management contributes substantially to improved rural public administration.

Theoretically, the study extends the application of institutional isomorphism within the context of rural public financial management. By demonstrating how coercive, mimetic, and normative pressures jointly influence digital governance adoption, the findings validate institutional theory as an appropriate framework for analyzing administrative transformation in decentralized settings. This contributes to the literature by offering empirical support from an understudied context—village governments in Indonesia [15][16].

Practically, the results underscore the importance of strengthening regulatory frameworks while ensuring consistent supervision and support. Since coercive pressure is the strongest driver, government agencies must continue providing clear guidelines, auditing mechanisms, and digital infrastructure to support compliance. At the same time, leveraging mimetic pressure through model villages and inter-village knowledge-sharing forums can accelerate best practice diffusion.

Enhancing normative pressure through capacity-building is also critical. Training programs, certification schemes, and professional development workshops should be expanded to improve the competencies of village financial staff, ensuring accurate and reliable financial reporting.

Nevertheless, digital financial governance should be prioritized as a core element of village development policy. Investments in digital tools, broadband access, and IT support systems are essential to ensure successful implementation. The government should also

integrate digital financial reporting systems more deeply with district-level oversight platforms to strengthen transparency and accountability.

While this study focused on institutional pressures within one province, future research may explore comparative analyses across different provinces or examine how political dynamics, digital literacy, or community participation interact with institutional pressures in shaping financial governance outcomes.

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