

Budgeting Under Pressure: Adaptive Practices in an Indonesian Public Service Agency

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ABSTRACT : This study examines how institutional pressure translates into collective budgeting practices in an Indonesian educational public service agency whose revenue targets have been set below the previous year's achievement for five consecutive years, despite achievement rates ranging from 113 to 142 per cent. Existing research largely explains budgetary slack as an individual reporting decision in experimental settings, leaving unexamined how external pressure becomes an internal routine. An interpretive case study combined participatory observation of budget planning forums, interviews, and documentation involving nine informants from the supervisory board, leadership, and planning team, analysed ethnomethodologically with NVivo. Three channels carry pressure to the agency, namely accountability demands, direct instructions, and social pressure, all operating on an unstable procedural basis. The agency responds with four interlocking practices : an informal division of roles, deliberate suppression of targets during budget reviews, exclusion of impermanent revenue sources, and reliance on in-year revisions as a buffer. The study concludes that target-setting in this agency is an organised collective response to institutional pressure rather than individual deviation, providing micro-process evidence of agencification in a developing country.

KEYWORDS: *Adaptive budgeting, Coercive isomorphism, Institutional pressure, Public service agency, Agencification*

I. INTRODUCTION

Reform of public administration over the past three decades has sought to make government organizations behave more like enterprises, measured by performance indicators and granted managerial discretion in exchange for accountability on results [1], [2]. Among the instruments through which this doctrine travels, agencification has been the most structurally consequential, separating implementation from policy formulation and vesting it in bodies that enjoy a degree of autonomy from the parent ministry [3]. Indonesia has pursued this path through successive waves of bureaucratic reform [4], of which the Public Service Agency, known locally as Badan Layanan Umum (BLU), is the principal accounting expression: agencies may retain and spend the revenue they earn rather than remitting it first to the state treasury [5]. By 2024 the model covered 338 agencies across health, education, fund management, and other service fields [6].

This kind of autonomy does not arrive unaccompanied. A BLU is supervised simultaneously by the Ministry of Finance as financial supervisor and by its technical ministry as service supervisor, so that discretion over revenue coexists with control that is layered rather than relaxed [5]. The agency is asked to display the efficiency of a firm while remaining answerable within the accountability architecture of government. It is in the annual setting of revenue targets that this double demand becomes concrete, because a single figure must satisfy two audiences at once: it must be ambitious enough to signal growth, and achievable enough to protect the agency and its supervisors from the appearance of failure.

The agency examined in this study resolves that tension in a consistent direction. For five consecutive years its revenue target has been set below the realization achieved in the preceding year, even though realization has exceeded the target every year by margins ranging from 113 to 142 per cent. Deliberate looseness of this kind is conventionally labelled budgetary slack and treated as a dysfunction: a technical flaw in forecasting, or a moral failing on the part of managers who prefer targets they can comfortably surpass [7], [8]. Yet the pattern here is too regular to be explained by individual preference. No single actor sets the figure, the figure survives changes of personnel, and it is produced within a procedure that several organizational levels pass through.

The dominant research tradition offers limited help in explaining such regularity. Budgetary slack has been studied chiefly through experiments and surveys that locate the phenomenon in the reporting decision of an individual subordinate, driven by honesty preferences, affective reactions, or the observed behaviour of peers [9], [10]. These designs isolate the decision precisely by stripping away the institutional setting in which real budget figures are negotiated: the regulations, the supervising bodies, the review meetings, and the reputational stakes attached to the organization above. Research on agencification, for its part, has concentrated on policy design and cross-national comparison, with repeated calls for micro-process evidence from developing countries that remain largely unanswered [11].

What falls between these two literatures is the mechanism of translation. It is established that institutional pressure shapes organizational behaviour, and it is established that slack is widespread. What has not been traced is how pressure arriving from outside an organization is converted into a routine practised collectively inside it. This study addresses that gap through an interpretive case study of an educational BLU supervised by two ministries at once.

The study therefore asks a single question: how is institutional pressure translated into collective local practices in the setting of revenue targets? Two subsidiary questions follow from it. First, through what channels does institutional pressure actually reach an agency that is supervised by two ministries at once? Second, through what practices do the actors absorb that pressure while continuing to appear compliant? The two subsidiary questions correspond to the two sets of findings reported below.

The study makes two contributions. From a theoretical perspective, it characterises the way this agency sets revenue targets as adaptive budgeting: a collective practice through which an organisation adjusts the figures it issues in response to institutional pressure, rather than an individual reporting decision taken in isolation. This term expands upon existing accounts of informal routines that develop outside of formal budgeting procedures [47] as well as reform designs that are adapted to local conditions [21].

The study specifies the components of such adaptation by identifying the channels through which pressure travels and the practices through which it is internalised. This carries institutional analysis of budgeting into a developing country setting where the process of agency formation is ongoing. In practice, it shows that target-setting mechanisms that prevent dialogue do not produce accurate planning figures. Instead, they produce adapted figures, which are less useful for the supervising bodies that rely on them.

II. THEORETICAL FRAMEWORK

2.1 New Public Management, Agencification, and Public Service Agencies

New Public Management proposes that government performs better when managed on business principles, with results measured, discretion delegated, and citizens treated as customers [1], [2]. Agencification operationalises this by separating implementing functions from the parent ministry into bodies granted managerial and financial discretion [13], on the premise that policy is best executed in a managerial zone insulated from political interference. Whether that premise is realised depends on the capacities an agency actually holds, which in Tanzanian government agencies have been shown to condition their performance in generating own-source revenue [14]. The reform is not uniform, however, varying across structural, managerial, and financial dimensions in ways that resist a single analytical lens [15]. Critics note that an orientation toward revenue and measurable output can displace the service purpose it was meant to serve, and that reforms raising state revenue do not automatically improve service quality or accountability [12].

Evidence on outcomes is correspondingly mixed. Agency tasks in the European Union have expanded into politically sensitive domains rather than remaining technical [16]. Meanwhile in Denmark agencification created opportunities for ministers to shift blame downward when failures occurred [17], in Greece the agency model has not been shown to simplify bureaucracy or improve performance [18] and Canadian federal agency employees report lower innovation climates and work autonomy than ministry employees [19]. Developing country evidence is thinner but suggestive: the autonomy agencies actually hold in Pakistan varies with the task they are assigned rather than with their formal status [20], while district development authorities in Papua New Guinea met persistent tensions in implementing agencification, adapting the reform to local conditions rather than enacting it as designed [21]. This pattern of local adaptation is what the present study pursues at the level of a single budgeting process.

In Indonesia the BLU embodies agencification in accounting terms [22]. Established under the State Treasury Law and elaborated through subsequent government and ministerial regulations, a BLU provides goods and services to the public without prioritising profit, on principles of efficiency and productivity, and is permitted to set service tariffs, manage cash and investments, retain year-end balances, and spend beyond ceiling within defined thresholds [5], [23]. Critically for this study, planning in a BLU is tiered: a five-year Business Strategic Plan is translated annually into a Business and Budget Plan whose revenue target considers the two preceding budget years, yet regulation does not prescribe whether the figure should rise or fall. The plan is not set unilaterally but reviewed by the echelon one unit and the Ministry of Finance in a process known in

daily practice as the *desk*, and may be revised in-year. Flexibility of this kind, when not matched by proportionate control, is precisely the condition under which dysfunctional budgetary behaviour emerges [24], [25].

2.2 Institutional Theory: Isomorphism, Legitimacy, and Organizational Responses

Institutional theory holds that organizations are driven not only by efficiency but by the need to satisfy expectations in the environment that sustains them. Legitimacy is secured by adopting structures and practices collectively believed to be proper, even where these are decoupled from technical activity [26]. Budgeting systems in the public sector accordingly function less as neutral control devices than as symbols signalling rational management [27], and are better read as loosely coupled with the activities they ostensibly govern [31]. Organizations within a shared field grow alike through isomorphism arising from coercive pressure rooted in regulation and resource dependence, normative pressure diffused through professional training, and mimetic pressure emerging under uncertainty [28]. Recent comparative evidence confirms that such pressures shape accounting and budgeting practice, with coercive pressure the dominant force in forming an organization's financial slack [29], [30], [32].

Organizations are not passive under this pressure. Five strategic responses are available, ranging from acquiescence and compromise through avoidance and defiance to manipulation, the last involving active attempts to influence the expectations an organization is judged against [33]. Where demands conflict with operational reality, compliance may be performed symbolically while practice follows its own logic, and organizations may couple selectively, enacting some demands genuinely while displaying others [34], [35]. Responses settle over time: repeated without challenge they harden into accepted norms through institutional inertia [36]. The budget is a particularly revealing site for these dynamics because it operates as an instrument of power in which dialogue is frequently absent, and because accountability routines around it are communicative as much as technical [37].

2.3 Public Sector Budgeting

Budgeting in government differs from budgeting in firms in both purpose and procedure. A public budget authorises expenditure and fixes the terms on which an organization will afterwards be held answerable, so it serves as an instrument of accountability before it serves as a tool of management. The procedure is correspondingly layered: figures are proposed at the operating level, reviewed at successive echelons, and settled in forums where the supervising body rather than the proposing unit holds the final say. Reforms that grant agencies financial discretion complicate this arrangement, because flexibility must be reconciled with control that remains hierarchical, and the resulting combinations vary widely enough to have been classified into distinct types of budget rule [24], [25]. Where the reconciliation is incomplete, the figures that emerge carry the marks of the relationship as much as of the calculation, which is why budget accuracy in public organizations has been found to depend on an organization's position within its institutional structure rather than on its forecasting capability alone [45].

One behavioural phenomenon within this setting has attracted sustained attention. Budgetary slack denotes a gap deliberately built into a budget by setting targets easier to achieve than actual capacity [7]. The dominant experimental tradition treats it as an individual decision shaped by honesty preferences and affective aversion to norm violation [9], or by observation of peer behaviour [10], [38], and as an ethical judgement conditioned by gender, codes of conduct, and moral reasoning [8], [39]. A parallel strand links slack to pressure within working relationships and to concern for organizational recognition and reputation [40], [41], and finds that compliance pressure from superiors influences slack in public sector settings specifically [42], [43].

A smaller body of work shifts the unit of analysis. Accountability as experienced by public managers is shaped by their perceived relationship with supervising bodies rather than by written obligation alone [44], and budgeting behaviour is conditioned by relations with parent and peer institutions within a single structure [45]. Slack has been shown to develop as a collective rather than individual response to institutional pressure [46], and informal routines growing outside codified procedure, described as vernacular budgeting, facilitate its persistence in public organizations [47]. These studies establish that pressure matters in the budgeting process. However, none of them traces the sequence by which external pressure becomes an internal routine in a specific budgeting cycle. That sequence is the contribution this study seeks to make.

III. RESEARCH METHODS

This study employs a qualitative design within an interpretive paradigm, appropriate because the objective is to understand the meanings actors construct around their own budgeting conduct rather than to test relationships between variables [48]. The research subject is an educational Public Service Agency in East Kalimantan, Indonesia, which has held BLU status since 2019 and fully implemented the BLU financial model in 2023. It was selected purposively on the basis of a distinctive pattern: non-tax revenue has exceeded the target

every year while the target set for the following year has repeatedly been placed below the preceding year's achievement, as presented in Table 1. Data were collected between January and June 2026.

Table 1. Non-tax state revenue targets and realization, 2021–2025

Year	Target (IDR)	Realization (IDR)	Achievement
2021	13,150,000,000	14,867,900,763	113%
2022	16,000,000,000	22,770,574,163	142%
2023	22,226,850,000	31,649,637,880	142%
2024	25,367,200,000	35,340,985,951	139%
2025	30,148,000,000	42,642,171,161	141%

Source: Processed primary data (2026)

Nine informants were selected purposively for their direct involvement in setting revenue targets and deliberately drawn from different organizational levels, since the object of interest is a practice produced through interaction rather than individual judgement [49]. The composition spans the supervisory board, executive leadership, and the planning function.

Methodological triangulation was applied across three techniques. Participatory observation covered official budget planning forums, including supervisory board meetings and planning team working sessions, allowing budgeting conduct to be recorded as it occurred. Focus group discussions addressed the Business and Budget Plan and were used to surface shared understandings that individual interviews tend to leave implicit [50]. Semi-structured in-depth interviews were then conducted to confirm and elaborate findings from the first two techniques, reducing the risk of single-source bias [51]. Documentary material comprising the Business Strategic Plan, the Business and Budget Plan, and budget realization reports was used to corroborate accounts of the target-setting sequence.

Analysis proceeded in stages with NVivo. Transcripts and field notes were open-coded to identify units of meaning, which were then grouped into themes. A hierarchy chart mapped the relative weight of each theme across the corpus, indicating which concerns dominated the actors' accounts. Word tree analysis traced recurring keywords denoting social action, among them the terms rendered in Indonesian as *diminta* (asked or instructed) and *desk* (the joint budget review), revealing the grammatical positions actors habitually occupied in describing their own conduct. Findings were then read against the institutional literature to establish the sequence from pressure to practice. The analytical flow is presented in Fig. 1 [52].

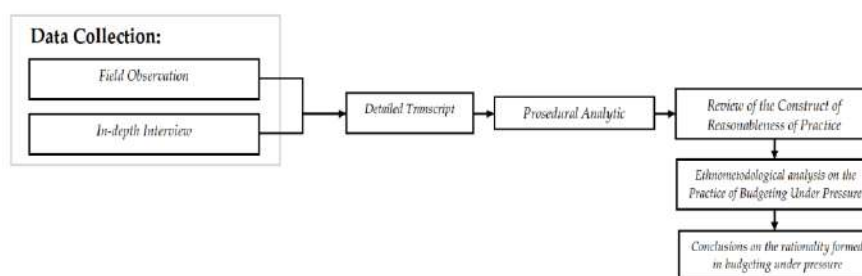


Fig. 1. Data analysis flow

Source: Adapted from Garfinkel (1967) [52]

IV. RESEARCH RESULTS

The field material yields two connected sets of findings. The first concerns the form in which pressure reaches the agency during the annual setting of revenue targets, and the second concerns the practices through which the actors answer it. This section reports both as they were observed and recounted. Their theoretical reading follows in the next section.

4.1 Channels of Institutional Pressure

Because the agency is supervised by two ministerial bodies at once, pressure arrives from two directions during the same planning cycle. It cannot be deflected, since the agency depends on its supervising ministry for the allocation of *Rupiah Murni*, the tax-derived state funding channelled through the parent ministry that underwrites its operations. Three distinct channels were identified in the material, summarised in Table 3.

Table 3. Channels of institutional pressure identified in the field

Channel	Manifestation in the budgeting process	Character
Accountability demand	Headquarters treats reported realization as the only relevant reality and declines to consider the circumstances producing it. Sustained growth is expected as a matter of course.	Procedural and impersonal, transmitted through reporting mechanisms
Instruction from superiors	Targets are explicitly requested not to be set high, and figures already issued are instructed to be revised. The request recurs annually and is accepted without objection.	Hierarchical and specific, able to override a formal ceiling
Social and reputational	A declining figure is avoided because it reflects on the reputation of the echelon above. The concern appears in no regulation yet governs conduct.	Wholly informal, carried by shared understanding

Source: Processed primary data (2026)

The three channels differ in formality but converge in effect. The accountability demand operates through reporting mechanisms that recognise only the figure, the instruction is capable of overriding a ceiling already formally issued, and the reputational channel is transmitted through an understanding that the agency's performance is read as a statement about its supervisor. Two features of the material stand out. The instruction to avoid high targets recurs annually, and it is received by the supervisory board without further inquiry. Correspondingly, no informant at any level described an occasion on which a proposed figure was contested on the ground that it understated capacity.

These pressures operate on a procedural base that is itself unstable. The schedule of the budget review was not stated consistently by the actors who participate in it: the timing of the strategic plan review was offered with hesitation and self-correction at the most senior level, and members of the planning team disagreed with one another over when the indicative and definitive stages fall. The calendar, in other words, is reconstructed from memory of previous cycles rather than consulted as fixed procedure. The practical consequence reported by the planning team is that they rarely command sufficient time to derive figures from a considered assessment of capacity combined with demands requiring immediate response, the target emerges as an answer produced against an uncertain deadline.

4.2 Adaptive Local Practices

Unable to contest the pressure openly, the actors work through a set of practices that keep the organization safe while preserving the appearance of compliance. These were not improvised in the cycle observed: informants at every level described them as the way the figure has been arrived at for several years, and the two former and current planning coordinators gave consistent accounts of them. Four practices were identified, summarised in Table 4.

Table 4. Adaptive local practices in revenue target setting

Practice	Form observed	Function in the process
Informal division of roles	Responsibility for the revenue figure is treated as belonging to the treasurer rather than the planning team. The figure arrives at the planners already determined, without a preceding internal forum.	No single actor owns the figure or deliberates over it
Suppression of targets at the desk	Targets are deliberately kept low during the joint review, on the shared reasoning that a modest figure signals continuing dependence and sustains central funding.	Shapes the terms on which the agency will be assessed
Exclusion of impermanent revenue	Students enrolled in the recognition of prior learning scheme, whose fees drive much of the realization, are agreed not to be counted when the target is calculated.	Protects the achievability of future targets
In-year revision as buffer	The option to revise the target during the fiscal year is retained as a safeguard, making a conservative opening figure a low-risk choice.	Loosens attachment to the stated figure without open refusal

Source: Processed primary data (2026)

The practices are mutually supporting rather than separate expedients. The division of roles means the figure reaches the planning team already fixed, so that the suppression enacted at the joint review is not a departure from an internally agreed estimate but the first point at which the figure is discussed at all. The reasoning offered for that suppression was consistently expressed in the first person plural: informants spoke of what would happen to the agency, not to themselves, if the figure were set high. The exclusion of the recognition of prior learning cohort was attributed by the planning team to professional training delivered by an institution affiliated with the supervising ministry, which had advised that targets be based on regular enrolment alone. The retention of in-year revision was described by executive and technical informants alike as the reason a conservative opening figure carries little risk.

Two further observations locate these practices in their wider setting. First, figures shift beyond the control of those who set them: a target recorded in the planning document was raised substantially after the joint review, having been harmonised across two directorates general in two ministries before agreement was reached. Second, the actors recognise but do not state in official forums that much of the realization rests on a student cohort whose programme lasts a single year, so that the revenue stream carrying the agency's achievement figures is not expected to persist.

V. DISCUSSION

Read against the institutional literature, the two sets of findings describe a sequence rather than a list: pressure arrives in a form that cannot be refused, and is absorbed into a repertoire that satisfies it in appearance while protecting the organization in substance. The discussion follows that sequence and then draws out what it implies for the study of budgeting under institutional pressure.

5.1 Pressure as Coercive Isomorphism

The configuration of dual ministerial supervision corresponds closely to coercive isomorphism, which arises where an organization depends on another for resources and must conform to its expectations [28]. The dependence here is concrete: the allocation of *Rupiah Murni* flows through the parent ministry, so that the expectations of that ministry are not advisory. That coercive pressure should be the dominant influence on an organization's financial slack is consistent with recent cross-national evidence [30]. What the present material adds is the observation that the pressure is not transmitted through regulation alone. Of the three channels identified, only the first is procedural, the second is hierarchical and informal, and the third appears in no written rule at all.

That the accountability demand recognises only the reported figure, and declines to consider the circumstances producing it, exemplifies the budget operating as an instrument of power in which dialogue is foreclosed [37]. The reputational channel is better explained by felt accountability, which holds that public managers act on their perceived relationship with supervising bodies rather than on written obligation [44], and by evidence that budgeting conduct is conditioned by an organization's position within a hierarchy of institutions [45]. The instability of the procedural base compounds all three: where the calendar is reconstructed from memory rather than consulted, deliberation is compressed, and a figure produced against an uncertain deadline is more readily shaped by pressure than by assessment of capacity.

5.2 From Individual Decision to Collective Repertoire

The first practice is where the present evidence diverges most sharply from the dominant research tradition. Experimental and survey work locates slack in the reporting decision of an individual subordinate who weighs honesty against self-interest at the moment of reporting, whether driven by affective aversion to norm violation [9] or by observation of peers [10], [38]. In this agency no such moment occurs. Responsibility for the figure is treated as belonging to the treasurer rather than the planning team, the figure reaches the planners already determined, and no internal forum precedes it. Authorship is diffused by the structure of the process itself, which is the condition under which informal routines growing outside codified procedure, described as vernacular budgeting, sustain slack in public organizations [47].

The reasoning that motivates suppression is correspondingly collective. Informants justified a low target by what it secures for the agency rather than for themselves, and expressed it as shared knowledge rather than private calculation. This supports the finding that slack in the public sector develops as a collective response to institutional pressure rather than as individual deviation [46], and it recasts the ethical frame within which the phenomenon is usually examined [8], [39]: where no actor decides, the conduct cannot be adequately described as a failure of individual honesty. The concern for the standing of the echelon above likewise sits closer to work linking slack to reputational stakes and to compliance pressure from superiors in public settings [40], [41], [42], [43] than to the experimental account.

5.3 Strategic Response and the Hardening of Practice

In the vocabulary of strategic responses, suppressing the target during the joint review is manipulation rather than acquiescence: an attempt to shape the criteria against which the organization will be judged, not merely to comply with them [33]. Retaining in-year revision belongs to the same logic, loosening attachment to the stated figure without open refusal. The exclusion of the impermanent revenue stream works differently, acquiring normative cover: because the advice to base targets on regular enrolment came from professional training delivered by an institution affiliated with the supervising ministry, a departure is converted into proper procedure, which is the mechanism of normative isomorphism [28]. Together the four practices satisfy reform requirements in form while preserving prior working methods in substance, extending evidence that agencified organizations adapt reform designs to local conditions rather than enacting them wholesale [21], and that formal compliance may be coupled selectively with actual practice [34], [35].

What makes the arrangement institutional rather than merely expedient is its reproduction. Informants across levels described the practices as settled, no occasion of contestation was reported, and the accounts of successive planning coordinators agreed. Repeated without challenge, a response hardens into an accepted norm through institutional inertia [36], at which point it is no longer experienced as a response at all. This is consistent with the observation that the annual instruction to avoid high targets is received without inquiry. The instability of the surrounding bureaucracy reinforces the same outcome. A figure harmonised across two directorates general after the review is the residue of successive adjustments rather than the output of a calculation, and where the final number is known to be unstable, a conservative opening position and a prepared revision route are the rational posture. The unstated dependence on a single-year student cohort gives that posture its substance, since the achievement the agency reports rests on a stream its own actors do not expect to persist.

5.4 Implications for Understanding Adaptive Budgeting

Taken together, the findings characterise revenue target setting in this agency as adaptive budgeting, an organized collective practice rather than an individual deviation, and they specify the mechanism of translation that the two literatures leave between them. Pressure travels through three channels, of which only one is formal. It meets a procedure whose calendar is unstable and whose authorship is diffuse and it is absorbed by four practices that are mutually supporting, normatively legitimated, and reproduced until they are indistinguishable from procedure. Budgeting systems in the public sector have long been read as symbols signalling rational management rather than as neutral control devices [27], [31], and loosely coupled with the activities they ostensibly govern [32] the present case shows what that loose coupling consists of in the detail of a single annual cycle, within an agency whose formal autonomy is recent and whose control remains layered [5].

VI. CONCLUSION

This study set out to explain how institutional pressure is translated into collective budgeting practice, and finds that the agency sets its revenue targets in response to pressure as that pressure is felt, rather than in proportion to the capacity it could reasonably estimate. Pressure reaches the agency from two supervising ministries at once as an accountability demand that recognises only reported figures, as direct instruction capable of overriding ceilings already issued, and as reputational concern attached to the echelon above, all resting on a procedural base so unstable that the budget calendar is reconstructed from memory rather than consulted. The actors answer it by diffusing authorship of the figure through an informal division of roles, suppressing targets during the joint review on shared reasoning about central funding, excluding an impermanent revenue stream from the calculation under cover of professional advice, and retaining in-year revision as a buffer.

These are adaptations rather than deviations. Each practice is intelligible as a reasonable answer to the pressure the actors face, each is reasoned collectively rather than privately, and together they have been reproduced across budget cycles until they are no longer experienced as a response at all [33], [36]. The figure that emerges from this process is therefore better read as a statement about the relationship between the agency and its supervising bodies than as a forecast of what the agency expects to earn, its looseness is a by-product of adaptation rather than its purpose. Understood in this way, conduct ordinarily attributed to the calculation of an individual manager is relocated to the level at which it actually occurs, namely an organized practice that the institutional setting itself calls forth.

Two suggestions follow. For practice, supervising ministries would obtain more reliable planning information by creating room for negotiation in target setting and by stabilising the review calendar, since mechanisms that foreclose dialogue and compress deliberation yield figures adapted to pressure rather than figures that describe capacity [44]. For future research, this study is bounded by its single-agency scope and by the absence of the supervising bodies' own perspective, subsequent work could incorporate the view from the centre, compare agencies at different stages of financial autonomy, and examine whether the repertoire identified here recurs in other agencified settings, so that the relationship between institutional pressure and local adaptation can be traced comparatively.

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