



UNIVERSITAS TERBUKA

# 2<sup>nd</sup> A4 - PFM Conference

2<sup>nd</sup> Asia-America-Africa-Australia Public Finance Management Conference



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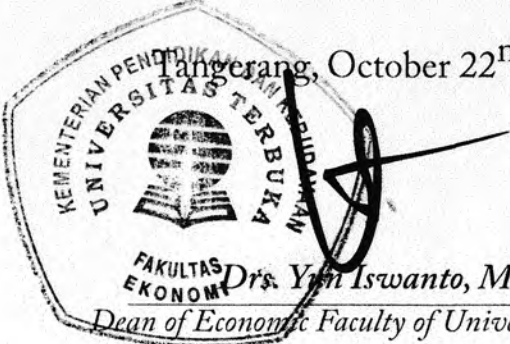
**Teddy Jurnalni**

Presenter

at the 2<sup>nd</sup> Asia-America-Africa-Australia Public Finance Management Conference on

***“Distance Technology on Good Government Governance”***

Tangerang, October 22<sup>nd</sup>, 2013



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Supported by:



ISBN: 978-979-011-819-5



# 2<sup>nd</sup> A4 - PFM Conference

2<sup>nd</sup> Asia-America-Africa-Australia Public Finance Management Conference

## Distance Technology on Good Government Governance

# Proceeding

Tangerang Selatan, Indonesia  
Universitas Terbuka Convention Center  
October 21<sup>st</sup>-22<sup>nd</sup>, 2013

Hosted by:  
Universitas Terbuka (UT), Indonesia  
and Forum Dosen Akuntansi Sektor Publik (FDASP)

Supported by:



# PROCEEDING

## **“Distance Technology on Good Government Governance”**

**Hosted by:  
Universitas Terbuka (UT), Indonesia  
& Forum Dosen Akuntansi Sektor Publik (FDASP)**

**Conference Secretariat:**

Faculty of Economics - Universitas Terbuka  
Jl. Cabe Raya, Pondok Cabe  
Pamulang, Tangerang Selatan, Indonesia

Website: [www.ut.ac.id/A4-pfmconf](http://www.ut.ac.id/A4-pfmconf)  
Email: [A4-pfmconf@ecampus.ut.ac.id](mailto:A4-pfmconf@ecampus.ut.ac.id)

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Lembaga Administrasi Negara  
Kementerian Kesehatan

**Published by :**

Univerasitas Terbuka-Kementerian Pendidikan dan Kebudayaan  
Jl. Cabe Raya, Pondok Cabe  
Pamulang, Tangerang Selatan - 15418  
Phone: +62-21-7490941 (hunting); Fax: +62-21-7490147  
Website: [www.ut.ac.id](http://www.ut.ac.id)

**ISBN : 978-979-011-819-5**

### Welcome Greeting from Rector of Universitas Terbuka

Distinguished participants,

Assalamualaikum wa warahmatullahi wa barakatuh,

It is a great honour to welcome all participants today to this International Conference on "The 2<sup>nd</sup> Asia-America-Africa-Australia Public Finance Management Conference".

As we all know that public sector accounting has a broader and more complex perspective than the private sector or business. These complexity caused by, not only the types and form of organization, but also due to the complexity of the environment that affect the public institutions. The complexity of public sector accounting issues is not only influenced by economic factors , but also influenced by other factors such as political, social, cultural, and historical.

Although there are perspective differences in understanding the public sector accounting , I hope that the audiences today, which are consist of practitioners, experts, academics and observers of the public sector of these countries, would take this occasion to build momentum to accelerate the realization of public accountability and transparency. Delegates from various countries could share updated theories about public sector accounting and also best practices in achieving good governance. Universitas Terbuka, as a government -owned public institutions that carry out the mandate to promote education in Indonesia through a distance learning system, also felt the need to participate, develop and disseminate the ideas and practices of the public sector anywhere in the world. With distance learning system , we were able to reach all corners of this country , even to the remote areas and overseas.

Therefore, through the opening of new program of continuing education in Public Sector Accounting, we hope UT could contribute as one of accelerator in dissemination of public sector accounting. And eventually it would able to promote the establishment of best practices in the field of public sector. With a number of students around 500,000, UT has the potential to become agent of change towards accountable, transparent, responsive, effective and efficient public sector governance.

To achieve accountable, transparent, responsive, effective and efficient public sector governance is not an easy task. It takes a variety of intelligent and continuous efforts, including the synergistic cooperation between practitioners, experts, academics and observers of the public sector. Therefore we hope that through this seminar, all practitioners, experts, academics and observers of the public sector from various countries who gather today in Universitas Terbuka could produce a variety of knowledge and new idea on how to achieve that.

Thank you again for all your participation and have a great seminar.

Wassalamualaikum wa warahmatullahi wa barakatuh,

Tangerang, October 21, 2013 .  
Rector,

Prof.Ir.Tian Belawati , M.Ed , Ph.D.

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**PUBLIC SECTOR REFORM AND PERFORMANCE MEASUREMENT SYSTEM  
FOR THE LOCAL GOVERNMENT:  
THE CASE OF INDONESIA**

**Teddy Jurnal, A.K Siti-Nabiha**

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**ABSTRACT**

Good governance and accountability issues have become a serious concern in Indonesia after the economic crisis and subsequent political transition in 1998. Consequently, the Indonesian government has increasingly drawn attention to the application of performance measurement for the governmental agencies as part of the bureaucratic reform and good governance practices. The purpose of this paper is to review the regulation, guidelines and examine the issues and consequences of implementing performance measurement system in Indonesian local governments using descriptive and analytical method based on secondary data. Although the performance measurement system has been implemented in Indonesia for fourteen years, the result has been far from satisfactory. The PMS regulation is quite comprehensive except there are no punishment and reward system. Some evidence shows some implementation issues such as lack of compliance, lack of integration between planning and budgeting, and inaccurate indicators and data reporting.

**Keywords:** Public Sector Reform, Performance Measurement System, Local Government, Indonesia.

**INTRODUCTION**

There has been increased awareness of the need of good governance in Indonesia since the multi-dimensional crisis experience by the country in 1997. The lack of governance will result in corruption, collusion, nepotism and monopolistic practices. Hence, major reformation of the public sector was instituted in Indonesia after the crisis. However, it should be noted that the reform of the Indonesia public sector was initially implemented in the early 1980s and 1990s in line with the wave of new public management worldwide. The concept New Public Management (NPM) encompasses of

the management techniques from the private sector to public sector organizations. NPM argues that to enhance the government performance, government should operate like a business organization and utilize the entrepreneurial-based technique (Hughes, 2003, Adams, 2000; Barzelay, 1992; and Osborne and Gaebler, 1992). NPM has dominated the public administration reform agenda of most OECD countries from the late 1970s (Hood, 1991; Pollitt, 1993; Ridley, 1996). The NPM concept represents a new paradigm that attempt to transform the public sector through organizational reforms that focus on results in terms of efficiency, effectiveness, and quality of service appears to fit nicely into the larger, political theory of governance (Stoker, 1998). Hence, NPM led to the major attention of good governance.

Good governance covers participation, rule of law, transparencies, responsiveness, consensus of orientation, equity, efficiency and effectiveness, accountability and strategic vision, equity and rule of law (UNDP, 1997, Mardiasmo, 2002). As such, the availability and dissemination of information regarding policies, programs, resource allocations, and results relative to services are the core elements of good governance. The primary objective of good governance associated with NPM reforms is to improve accountability because NPM give a greater attention on markets, citizen-consumer satisfaction, and transparency of government. Hence, the issue of performance measurement is part of the agenda of institutional reform in order to fulfill demand for greater productivity, transparency and accountability or government agencies, especially the local government by the citizens.

Indonesia has also increasingly drawn attention to the application of performance measurement along with the notion of bureaucratic reform and good governance practices. However, even though the performance measurement system (PMS) have been implemented in Indonesia ears since 1999, the result has been far from satisfactory. This paper aims to examine the guidelines and the implementation of PMS through all regulations pertaining to the system that local governments have to do in order to determine whether the system might drive the local governments to be more perform and accountable. This paper is organized as follows. Section 1 explains the PMS in Indonesia, which the local governments have to do. Section 2 reviews the guidelines of PMS from the central government. Section 3 presents the findings. Section 4 we discuss the findings and make conclusion.

### LITERATURE REVIEW

#### PMS in Public Sector

The increase intention to performance measurement in public sector coincides with the rise of public sector reform (Kloot and

Martin, 2000). Public sector performance measurement as an assessment tool which assesses strategy implementation through financial and non-financial measures (Mardiasmo, 2002). Measuring performance is related with that sustainable transformation in public sector (Nichols, 1997 and Durst & Newell, 1999). Thus, performance measurement in the public sector may be seen as critical to efforts to streamline governments; gain greater efficiency, productivity and effectiveness; enhance transparency and accountability; regain public trust in governmental institutions; and contribute to a reorientation of the role and functions of government (Caiden and Caiden, 2004).

The PMS have been advocated as a tool needed to ensure success of private oriented companies, but it is considered impossible to measure performance in the public sector because, there are many stakeholders that have different and conflicting requirements and caused unclear target setting (Brignall and Modell, 2000; Lawton et al., 2000; Wisniewski and Olafsson, 2004; Wisniewski and Stewart, 2004). In developing countries, the limited institutional capacity such as weaknesses in regulatory practice, low level of public accountability, administrative inefficiencies, limited human resources, a lack of facilities, and insufficient funding (IMF, 2002; Nsouli, 2000; Van Crowder, 1996; Mimba, 2007) have led to the situation in which the bureaucracy is inefficient and lack of transparency (Henderson, 2001).

#### PMS in Local Government

Performance measurement can improve citizen trust in government directly through citizen participation in the evaluation process or indirectly by improving citizens' perceptions of government performance (Yang and Holzer, 2006). Performance measurement in local government rests on the potential value of such measures to three audiences: local government managers, elected officials, and citizens (Ammons, 1995). The importance of performance measurement in local governments not only as a

management and communication tool, but also important source in the budgetary process in US local governments (Melkers and Willoughby, 2002).

In order to implement PMS successfully, the local government should be careful to select of applicable standards and relevant performance indicators (Ammons, 1995). Otley's (1999) offers performance management framework that covers five issues that need to be addressed in developing a framework for managing organizational performance. First, organizational aims and objectives, and the mechanisms that have been put in place to measure and monitor goal attainment. Second, the strategies or the processes used to implement and measure the achievement of the strategies (e.g., strategic planning, performance indicator, budgeting). Third, the performance target setting and measurement of effectiveness and efficiency. Fourth, the punishment and reward system as the consequences from the achievement or the failure to achieve the performance targets. Fifth, the information flow to enable the organization to learn from its experience. The local government must ensure the implementation PMS covers on those five areas to achieve good result.

The use of PMS is still facing various challenges in developing countries. In Uganda, the use of National Annual Assessments (NAS) as performance appraisal has helped local governments although in most local government plans, the focus is more on input-output relationships as opposed to outcomes and impacts (Kugonza, 2010). The respondents more focus is on delivery of outputs rather than on the outcome of such services delivery. Basically, measuring the outcomes is more difficult than measuring the output, therefore some municipal governments use more output (efficiency) than outcome (effectiveness) measures (Chan, 2004; Pollanen, 2005; Poister and Streib, 1999).

The performance assessment of the Malaysian public sector in order to improve their efficiency and effectiveness has limited success since the government does not

monitor the performance of public agencies, so there are no penalties if the government agency could not meet the performance target (Siti-Nabiha, 2008). Key Performance Indicator (KPI) data are collected, reported and analyzed for internal purposes only. In Indonesia, Akbar (2012) found legislative requirement has the strongest effect than metric difficulties, technical knowledge, management commitment. It implies that the main reason for developing indicators is simply to comply with central government regulations. In other words, the motivation is more about conformance than performance, and the coercive pressure is strongest from central government.

### METHODOLOGY

The main objectives of this paper are to review the guidelines and explore the implementation issues in local government. This paper adopts descriptive analysis and mainly based on secondary data. We review the performance management system required by central government and compare it with the Otley's (1999) performance management framework to examine the appropriateness and completeness of the regulation and guidelines. Then, previous literatures have been carried out with the aim of identifying the implementation problem by looking at the regulation and provide some recommendations.

There are some advantages of using Otley's (1999) performance management framework because the five issues (organizational objectives, strategies, the performance target, punishment and reward system, and information flow) are broad and cover the overall performance management framework, and can be used to describe a wide range of performance management practices.

### PERFORMANCE ACCOUNTABILITY AND REPORTING SYSTEM

The performance accountability focused only to the financial accountability before 1999. Changes in PMS practice started since the issuance of Presidential Instruction (PI) No. 7/1999, which requires the government agencies to report non-financial performance besides the financial performance. This regulation requires all government agencies to implement performance accountability system (SAKIP) and produce performance accountability report (LAKIP). The main purpose of this regulation is to ensure that government institutions can manage their institution in a more effective, efficient and responsible manner.

The operational guideline for the performance accountability system and reporting is regulated in Public Administration Agency (PAA) Decree No. 589/IX/6/Y/99 and refined by No. 239/IX/6/8/2003 which require the government institution to develop the strategic planning, performance planning and performance measurement in performance accountability system to achieve the vision, mission and objectives of the organization. This regulation also requires government to prepare the well-defined planning, performance target, indicator to measure, data collection system, and offer clear guidance in the implementation and evaluation of programs to achieve a satisfactory result. The government institution must prepare and submit the performance reports every year.

#### FIGURE 1

The performance accountability cycle consists of 4 steps (Figure 1). First, the strategic planning that requires government institution to align vision and mission with the opportunity and hindrance to increase the performance accountability. Strategic planning consists of vision, mission, goal, objective and strategy that can anticipate future development (Figure 2). Therefore, the strategic planning should align with national long/medium-

term planning. The strategic planning will be translated into performance planning.

#### FIGURE 2

Performance planning is the process of preparing performance plan as a translation of performance targets and programs from the strategic planning and will be implemented through the annual activities which consists of objective, programs, activities, performance indicators and performance targets (Figure 3). All performance indicators of the objectives and activities will be set in the performance plan. Budget preparation and policy formulation in the performance planning reflect the commitment to achieve the annual objective of the institution. Performance measurement is used as a basis for assessing the success and failure of the implementation of all activities. The measurement is the result of a systematic assessment based on the performance indicators such as activity indicators of inputs, outputs, outcomes, benefits and impacts. The utilization of performance information is meant to improve the performance continuously.

#### FIGURE 3

The local government must establish the KPI based on the guideline from Ministry of State Apparatus and Bureaucracy Reform (MSABR) Regulation No. 9/2007. This regulation enables the government institutions can measure their success or failure in achieving organization's strategic goals and objectives. It also requires local government to develop their outcome-based indicators to improve performance and accountability. The KPI's should be formulated based on mid-term and strategic planning, and meet the requirement of SMART criteria (specific, measurable, attainable, relevant and timely).

The performance accountability report should be sent not more than three months after the fiscal year. This report describes the performance achievement of local government including the financial aspect such as budgeting to measure the effectiveness and efficiency. Basically,

performance accountability report relies on self-assessment approach in performance measurement and reporting, to ensure that all governmental agencies comply with the established operating procedures and standards and attempts to strengthen result-orientation.

The information required in the report include the result of the performance measurement, evaluation and analysis performance accountability, the success and failure, the barrier and the problem, and the solution. In addition, the report also requires the information of budget allocation for the implementation and the realization including efficient performance indicators.

### Performance Accountability Report Evaluation

The central government assesses the performance of local governments through performance accountability report. The purpose of the evaluation is to analyze the implementation of PMS and give recommendations for improvement.

The evaluation guideline of the performance accountability report is regulated by MSABR(No. 135/2004 and refined by No. 25/2012). It requires the central government to evaluate the preparation of performance policy setting and key performance indicators, the implementation of the PM components such as performance planning, performance measurement, performance reporting, internal performance evaluation, and achievement of organizational goals and objectives (Table 1). The evaluation of performance focuses more on process (80%) than result oriented (20%). The total score will be classified as follows: AA (>85-100); A (>75-85); B (>65-75); CC (>50-65); C (>30-50) and D (0-30).

TABLE 1

### FINDINGS

After fourteen years implementation, the

system does not show the good result or achieve what is intended to achieve. Based on performance evaluation 2012, 75.75 % of the province get good grade (CC and above) but only 24.20% district/city get good grade (Table 2). The improvement at province level shows significant result where in 2009, only 3.70% have a good grade, increase to 75.75% in 2012 (Table 3). In contrary, the improvement in district/city level shows unsatisfactory result. In 2009, only 1.16% get a good grade, increase to 24.20% in 2012 (Table 3). The district/city level needs more attention from the government to facilitate and guide them to perform well.

TABLE 2

TABLE 3

The central government requires the central government to submit at least two performance reports, LPPD (sub-national governance performance report) to Ministry of Home Affairs (MoHa) and LAKIP from MSABR. All the reports contain information about governmental performance along a designated period and should be prepared by local governments. Even though the performance report has the same purpose to measure the local government performance but the format is different. Such as situation demanded more workforces and energy from local government. Frequently, different central ministries have jurisdiction over the planning and budgeting areas, but there is a lack of coordination (ICCMA, 2005).

The PAA Decree No. 239/IX/6/8/2003 requires local government to have strategic planning, objective, programs, activities, performance indicator and reporting. The system introduced is quite comprehensive in the sense that the government has already regulated key objectives, strategies and plans, performance target and measurement, and performance information. This regulation meets with four issues from Otley's (1999) performance management framework which is consist of organizational aims and objectives, the strategies to implement and measure the achievement, performance target settings and measurement of effectiveness

and efficiency, and performance information. However, the regulations do not cover the punishment and reward system in organization level and individual level. Consequently, the local governments are not motivated to perform well and more accountable if there is no punishment and reward regulation.

The central government evaluates the local government performance based on performance accountability report. The evaluation more focus on the implementation of performance accountability system (80%) than the performance achievement (20%). It can be concluded that the evaluation system is focus more on process than result oriented. As consequences, the local government can get good result (CC) if they can prepare the planning document and indicators even without achievement.

Based on MSABR evaluation report, not all local governments have sent their performance accountability report whereas the MSABR Regulation No. 29/2010 requires the local governments to submit their performance accountability report (LAKIP) not more than 3 months after the fiscal year. Some local governments have difficulties in preparing performance report and do not submit the report. One of the main issues is inadequate knowledge and skills of their staffs to implement PMS and produce the performance report.

Government through MoHA Regulation No. 54/2010 requires the local governments to set up long-term and medium-term development plan, and strategic planning for district/city and all the indicators must be align with local government medium-term planning (MSABR 29/2010). As a matter a fact, the evaluation result from the MSABR in 2012 shows some local governments prepare strategic plans without aligning with medium-term development plan. Since the budget remains the chief motivating force in determining the allocation of resources, the performance targets should be matched with annual budgetary costs. However, there are plenty examples show some programs/activities in performance

accountability report have no budget or vice versa (PKMK-LAN, 2005).

The MSABR introduced KPI in 2007. This regulation requires outcome indicators at local government level. Local governments must set KPI such as activity indicators of inputs, outputs, outcomes, benefits and impacts. However, some local governments have difficulties in linking input with output and distinguishing between output and outcome (Dendi, 2010). The outcomes, benefits and impacts, which are more difficult to be measured, are not identified well. The municipal governments usually use more output (efficiency) than outcome measures (Poister and Streib, 1999; Chan, 2004; Pollanen, 2005; Kugonza, 2010).

Another key problem in producing accurate reporting is an availability of reliable data. Theoretically, results data for each performance measure should be regularly collected during the year in order that the data can be analyzed and adjustments made to enable the programs to continue to perform as expected (AGA, 2009). In Indonesia, the government usually lack of reliable and consistent data especially in sub-national government in most regions although they have made substantial efforts to improve the data availability and reliability. As consequences, performance targets were defined without sufficient baseline data and some local governments determine the target indicators and performance indicator by using trend of previous year. Worse even, some local governments determine the value of realization by using the prediction from the previous year and only few local governments determine the value based on the database (PKMK-LAN, 2005).

### DISCUSSION

This paper set out to examine the regulation, guidelines and issues of implementation the performance accountability system in local government. The finding shows there is a redundant performance reporting from the

central government (MoHa and MSABR), which can switch the focus of local government from improving the quality of the PMS implementation to the report preparation. Moreover, the local government is facing the limited capacity of their staffs. The current regulations overwhelm the local governments rather than stimulate and capacitate them to enhance their learning process, strengthen their capacity for policy formulation and strategy alignments in addressing local/regional issues and emerging global challenges (Dendi, 2010). Therefore, it is necessary for central government to make better coordination between ministries to regulate the local government performance report.

Most of components in performance management system have been regulated except the punishment and reward system. Based on Otley's(1999) performance management framework, motivation and incentives are the main focus of the fourth question, which examine the consequences that follow from the success or the failure to achieve the performance targets. He argued that there should be a link between the measures and the appraisal and reward system. Therefore, the implementation of PMS has not taken seriously by some local governments in Indonesia. Moreover, some local governments do not submit the yearly performance report because no punishment for them. In contrary, compares to Government Regulation No. 8/2006, which required the local government to submit the financial reporting on time, the delay of financial reports delivery will lead to the delay cash disbursement funds from central government. Therefore, the central government should regulate the punishment and reward system related to PMS.

Performance information disclosure also plays role to the submission of the report. LAKIP is one type of accountability report that is available to the public (NCSA, 2005). But in fact, most of local governments do not publish their performance report through their website. Without participation of local residents, there is no pressure for local

governments submit the report and the system will be handicapped if the performance information is kept away from the public (Abu-Bakar et al., 2011). Performance information should be published and treated as public documents which are easy to access at few costs; otherwise, it will create an unwarranted public perception that the government pledge is merely rhetoric (Siddiquee, 2006). Until now, the current practice the public participation has not reached a wider audience (Kurniawan, 2011). Therefore, it is important to central government to regulate performance information disclosure to give more pressure to local government to perform better.

KPI was just introduced in 2007, on the paper it looks like the implementation was more on revolutionary starting from performance reporting in 1999. However, it can be argued that from 1999 until 2007, the local governments had difficulties to measure the success or failure of their strategic goals and objectives.

The KPI's regulation requires the local government to develop their KPIs, but due to the unreliable data, lack of supervisory from central government and inadequate skills, the quality of KPIs are still questionable. In some local governments have more comprehensive understanding of the importance of preparation and adoption of KPI, but they still find difficulties to set outcome-based KPI. The local government must improve their staff capability to improve the quality of KPI through training and supervisory. Unfortunately, there is no support regulation for thorough monitoring and supervisory system from MSABR except the regular yearly evaluation.

In addition, the limitation of producing accurate indicators and reporting is the availability of reliable data. The number of performance indicator requires robust and consistent baseline data to measure the performance target. In order to prepare accurate performance report, the local government must have continuous performance data for each of the programs, activities and achievements. Therefore, the

local government should establish a performance information system that can provide reliable data in order to produce performance reporting accurately.

One of several challenges is the coherence between planning and budgeting. Theoretically, the strategic planning must be coherence with the local government medium-term development plan, action plan and budget. Past experience shows the multiple and often conflicting political objectives of different stakeholders can force the local government to change the planning without considering the coherence between the medium-term development plan, strategic planning, action plan and budget. Moreover, the local governments also face inadequate human resources capability to align between strategic planning and budget.

The evaluation of performance report focuses more on the process (80%) than result (20%). It can be concluded, the central government motivate the local government to focus more on the planning document and implementation process of PMS than the achievement. From a theoretical perspective, at the end, the implementation of effective PMS will improve the achievement of the goal. Focus on process is still acceptable in the earlier stage, but for the next stage, the evaluation of achievement should have a significant portion.

### CONCLUSION

Since the enactment of Presidential Instruction No. 7/1999 and followed by other regulations to accelerate the adoption of PMS show that the implementation of PMS has been far from satisfactory. Due to the political and administrative culture in Indonesia, all the difficulties could drive some local governments implement PMS just to fulfill the formal obligations to the central government rather than to use it as an applicative and realistic planning. The local governments performance does not achieve what is intended although it can be concluded that most of the regulations meet the Otley's (1999) performance management

framework except punishment and reward system.

This paper has also shown the discrepancies between policies and practices of PMS implementation. In order to improve the quality of PMS implementation, the central government should regulate the coordination between ministries, provide the monitoring and supervisory system, and improve the local staffs. However, The local governments should strive to implement the PMS because it can help the local governments develop a continuous system of improvement. The most important is the performance measurements can develop positive behavioral change (AGA, 2009). The limiting factor calls for a more comprehensive capacity building approach including individual, organizational and system levels. Therefore, to see in detail, in depth investigation is needed to analyze whether the regulations and its consequences will lead the local government to perform better and more accountable.

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