

ICBSI 2018
**International Conference on Business Sustainability and
Innovation**

**ADOPTION OF PERFORMANCE MANAGEMENT SYSTEM:
EXTERNAL COMPLIANCE VERSUS INTERNAL CAPABILITIES**

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Abstract

The acceptance of New Public Management (NPM) believing that private sector is the exemplar for the public sector has led to the use of a performance measurement and management system in governmental sector. Similarly, in Indonesia, the Government Institution Performance Accountability System (SAKIP), as established in Law No 8, 2006, requires local government to implement a performance management system (PMS). However, many local governments have not fully implemented this system. Hence, in this paper, issues are discussed regarding the pressures around and barriers to adoption of a PMS for an Indonesian local government. A two-year field study was undertaken, comprising formal interviews and a documentary review at a local authority. The findings showed that the adoption of a PMS at such an authority faced significant barriers, mainly triggered by the combination of an excessive number of indicators mandated by SAKIP, and the difference in staff and officers' competence that has led to a relatively high reliance on external consultants, especially in operationalising regulations and programme goals into their relevant performance indicators. Consequently, even if they have relevant and suitable performance indicators, their reliance more on externally developed indicators has decreased their contextuality as well as created barriers to apply them optimally, such as in developing appropriate formula, and in determining relevant data to be collected. The excessive number of indicators mandated by SAKIP has also caused difficulty in achieving set targets. The findings also highlighted that the poor SAKIP ranking result represents major social pressure regarding the adoption of PMS.

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Keywords: Performance Measurement and Management, Local Government, Indonesia, Symbolic Adoption.



1. Introduction

The new public management philosophy, with the view that private sector practices are relevant in the public sector, has led to efforts to reform the governmental sector in Indonesia. These reform efforts, together with the shift in political power in Indonesia, have had a major impact on governmental accounting practices (Harun, Van Puersem, & Eggleton, 2012; Marwata & Alam, 2006). While efforts have been made to reform the governmental accounting system since the 1970s and 1980s (Mir & Sutyono, 2013), the push for change in accounting practices intensified in the 1990s was due to coercive pressure from international bodies, especially debtor agencies such as the IMF and the World Bank, and the normative pressures of the key technocrats (Harun, et al., 2012; Mir & Sutyono, 2013). The public sector reform has had a significant impact on local government, as it has a wider responsibility to manage its affairs and be accountable to citizens (Jurnali & Siti-Nabiha, 2015; Seymour & Turner, 2002).

As the focus of the public sector reform is on good governance, accountability and transparency, managerial accounting tools and techniques, specifically the performance measurement and management system, have played a significant role in the process. Consequently, efforts to ensure the utilisation of systems of managing performance were made over the years, with the issuance of various presidential instructions and regulations detailing the elements of performance measurement and management (SAKIP) and reporting of yearly performance (LAKIP) (Jurnali & Siti-Nabiha, 2015). The government, through Ministry of State Apparatus and Bureaucratic Reform (MSABR), pushed the adoption of performance management by evaluating and rating local authorities based on their yearly performance report (LAKIP). The evaluation criteria largely focused on the implementation of the system, as compared to the achievement of results (Jurnali & Siti-Nabiha, 2015). Efforts to enforce the implementation of PMS have gained further momentum over the last few years, as MSABR actively publicised the results of the PMS reports, which led to an increased presence in mass media reports about local government performance, where previously the media provided statements from high-ranking ministerial officers regarding the PMS reports. Despite these actions in publishing the evaluation results of local government, several local governments have not managed to improve their ratings or effectively implement a PMS.

2. Problem Statement

The problematic nature of PMS implementation in public sector organisations is well documented in the empirical literature (Arnaboldi, Lapsley, & Steccolini 2013; Modell, 2003, 2009). A PMS is decoupled from organisational practices with various negative consequences. The same issue is also faced in developing countries, as, in most cases, the accounting tools and techniques that underpinned the reform were introduced in public sector organisations that lacked the capacity and capability to implement the reform (Mir & Sutyono, 2013; Akbar, Pilcher, & Perrin, 2012; Mimba, Van Helden, & Tillema, 2013; Khan & Hoque, 2016; Marwata & Alam, 2006; Djamhuri, 2009). Therefore, the accounting reform, with the objectives of improving governmental efficiency, transparency and governance, has failed to achieve its intended objectives (Mir & Sutyono, 2013; Akbar et al., 2012; Yang & Modell, 2012). Among the issues that hindered PMS implementation in public sector organisations in

developing countries were the lack of skills, limited facilities and limited number of staff, which resulted in difficulty for public officers in formulating the performance indicators, and consequently, the organisations were not able to produce the performance report (Akbar et al., 2012; Mimba et al., 2013; Djamhuri, 2009). Wijen (2014) found other compliance barriers such as officers' lack of attention, motivation and knowledge.

In an Indonesian study, Akbar et al. (2012) also believed that due to a lack of skills, resource-rich local governments have employed the services of consultants and academics to assist them with the formulation of indicators (Akbar et al., 2012). This outsourcing of performance management practice could lead to a host of other issues, especially if the indicators formulated were not contextualised to the specific nature of the local authorities. Hence, Akbar et al. (2012) noted that the performance report has no significant impact on planning and control of the local governments, and does not impact on decision making. This is not surprising, as noted by Van Helden and Reichard (2016), performance information in public sector organisations is mainly used for external accountability purposes regarding political bodies, citizens or oversight agencies, as compared to its use for internal control and decision making, as seen in the private sector.

Such problematic adoption of PMS arises because the PMS implementation was not due to internal considerations, but more due to external pressures. In Indonesia, the legislative and governmental regulations are a major factor driving the use of performance measurement practice (Akbar et al., 2012). Despite this regulatory pressure, many local governments have not submitted performance reports during the early years of the reform (Jurnali & Siti-Nabiha, 2015). Hence, the PMS was not adopted or was decoupled from organisational internal practices, where the practice is decoupled from policy, as the policy was adopted for ceremonial purposes and did not alter the organisational practices or routine (Bromley & Powell, 2012). Issues in implementation could also lead to decoupling between subunits, where there is a difference in implementation between subunits in an organisation. It has been argued that the non-adoption or symbolic adoption of PMS practice might not be permanent (Bromley & Powell, 2012; Modell, 2009), especially due to the intensive action on ensuring policy compliance through auditing of public organisations (Bromley & Powell, 2012).

3. Research Questions

The following question is addressed in this paper: What the pressures and barriers to PMS adoption in a local government authority?

4. Purpose of the Study

The purpose of this study is to understand the pressures and barriers to PMS adoption at a local government authority.

5. Research Methods

A qualitative case study approach is used in this research. The case selected is a local authority in one of the provinces in Java, LG1, which has received a low ranking from MSABR. LG1, a city of

tourism and agriculture, was established as a municipality nearly 20 years ago. It is categorised as a small city and comprises only three districts. LG1 has 12 departments, nine divisions, six agencies and four offices. The total population under the city governance was approximately 200,000 in 2016, with an average population growth of 1.19% over the last six years. Thus, the population density is around 1,000/km².

LG1 was selected as the case site since the mayor was receptive to the idea of identifying a better solution to improve the performance of his organisation. Ongoing fieldwork was conducted in LG1 from 2016 to 2018, which included two focus group discussions, in-depth interviews and documentary reviews. The first focus group discussion was conducted with eight key members of local government located in the same province as LG1 (see Table 1). The purpose of this focus group was to gain understanding about the Indonesian government model of PMS, and the factors that enable success or failure in its implementation.

The second focus group discussion took place in 2017, in order to gain understanding and perspectives from LG1's organisational members about the PMS at the organisation. In-depth interviews were conducted with key organisational members of the case organisation from 2017 to 2018. The head of the Organization Division of the LG1 Municipality was interviewed, as the division is responsible for compiling all material for performance reporting purposes. Due to the critical role of the division in performance measurement reporting for the city, the head of the division was interviewed five times. The list of people interviewed and participants of the focus group are shown in Table 1.

Table 01. The list of people interviewed and the focus group participants

	Method	Respondents/Participants
1	Focus Group Interview with eight members of local government in the same province as LG1	Ten participants: Head of Inspectorate, Officers of Planning and Development Unit, Officers from Organisation Division [including 3 from LA 1]: Assistant of Mayor for Administrative Affairs, Head of Organisation Division and, Officer of LG Planning and Development Agency
2	Interviews at LG1	Head of Organization Division (interviewed five times), Local Government Secretary, Mayor's Assistant in Administrative and Governmental Affairs, Head of Local Government Development Planning Agency
3	Focus Group at LG1	Focus group with officers from: Education Department, LG Development Planning Agency, The Department of Social Affairs and Manpower, Department of Agriculture and Forestry, Health Care Department, Organization Division

Data was also gathered from both internal and public documents, as shown in Table 2. The main documents reviewed are the Medium Term Local Government Development Plan and the Government

Institution Performance Report (LAKIP) since 2015. Other documents reviewed were the 2016 Performance Contract, and reports from the LG1 Central Statistical Bureau and the newspapers.

Table 02. List of Relevant Documents Reviewed

	Name of Documents
1	Government Institution Performance Report (LAKIP) since 2015
2	Government Performance Contract 2016
3	Local Government Medium Term Development Plan
4	Statistics Documentary from LG1 Central Bureau of Statistic
5	LG1 Website
6	Various newspapers

6. Findings

6.1. The context of LG1

The city, due to its mild weather and mountainous environment, is a popular tourist destination in the province. It is anticipated that better transportation links, through improvements to the intercity highway and train services, will be in effect by the end of 2019, positively contributing to the improvement of the city’s tourism revenues. The LG1 budget, as with the budgets of other cities in Indonesia, is signed jointly by the city’s mayor and the head of local parliament. The budget showed that the city’s self-generated revenue, although increasing gradually over the last five years, is relatively insignificant, as it constitutes an average of only 12.73% of the total revenue. LG1’s self-generated revenue was mainly from agriculture and tourism-based income, and income from holding interests in several tourist attraction properties. The other source of income is trading, especially from agricultural products, and those products and services supporting tourism activities. Thus, for LG1, it is clear that tourism has now become a main triggering factor for economic activities. LG1’s fiscal capacity is low, as it is heavily dependent on central government transfer through the General Allocated Fund.

6.2. Barriers to PMS Adoption

Even though the Government Regulation No. 8 of 2006 required all local government to implement a PMS, only in 2009 did LG1 commence efforts to adopt a PMS. However, the lack of commitment and strong top management support led to limited scope, intensity and impact of the PMS at LG1. Officers’ lack of capacity and capability to implement the reform, and their mindsets, represent both the cognitive and organisational barriers to adoption of a PMS.

The way the system is designed also led to a lack of usage of performance information. LG1 employed external consultants to design the system. The system was designed with limited input from LG1 officers, as almost all of the critical work involved in the preparation of documents and development of the indicators was completed by the consultant. Consequently, the system was not contextualised to the nature of LG1, with contradictory, non-contextual and excessive performance indicators. Thus, the planning and resource document, i.e. the LG1 medium-term budget and planning document, was not properly formulated, as it was incomplete and contained contradictory performance indicators. Thus, the

consultant's approach to establishing the system did not lead to skills improvement or the LG1 officers' understanding of the PMS. There was no common language or interpretation among officials regarding the content of the performance report submitted to relevant institutions, such as the provincial government and MSABR. These factors inhibited the learning process around SAKIP, as well as its effective implementation. Thus, during these three years from 2006 to 2009, PMS adoption was only minimal, without efforts to ensure that the system was substantively implemented. As the PMS is used to demonstrate formal compliance to the governmental directive, the values underpinning the system, such as accountability, transparency, rule compliance, effectiveness, efficiency and quality orientation, were not realised.

Another significant barrier that hindered the adoption of PMS during the period up to 2017 was the long time period required to legalise the LG1 budget. Such a delay was the result of a long period of completion in drafting the budget by the executive wing, as well as in gaining the approval of parliament. Furthermore, in 2017, six high-ranking officials at LG1 resigned from their positions. This produced a rather uncertain situation among heads of division/department, and impacted on the budgetary and planning process.

The problematic nature of the LG1 medium-term planning and budget document led to efforts to improve it by including more complete, logical and contextual performance indicators in a revised version of the medium-term budget for 2008–2012. Unfortunately, this had no significant impact on PMS adoption, even though LG1 top management gradually increased their commitment to the adoption of the system, in parallel with the introduction of MSABR's Regulation No. 25 of 2012, which provided a more detailed explanation of PMS as a useful tool for SAKIP improvement. Thus, it is not surprising that LG1 was ranked C from 2012 to 2017, the lowest rank in the PMS ranking system adopted by MSABR.

Even though LG1 gained a low ranking in its SAKIP evaluation, the city experienced impressive economic growth during that period. The mayor, due to his business background, seeks to utilise and exploit the natural advantage of LG1 as an attractive tourist destination. He has obtained private investment and thus developed more tourist attractions in LG1. New tourist attractions such as museums and varieties of restaurants and accommodation have led to an increased number of tourists visiting the city, as well as self-generated revenue for the city. Moreover, the city has shown improvement in public welfare over the last five years, in terms of the UN Human Development Index (HDI). In 2015, the HDI reached 85, compared to about 75 in 2011. The improvement in HDI was specifically driven by the improvement in the indices of education, health and purchasing power.

6.3. Pressures for PMS: MSABR Ranking Result

The strong impetus for substantive compliance with PMS was due to the result of the MSABR local government ranking in 2017. As shown in Table 3, all local governments in the same province as LG1 have shown significant improvement in their ranking. However, LG1 was the only local government authority in the province that was still ranked C.

Table 03. SAKIP performance for LG1 and other local government authorities in the same province

	2012	2013	2014	2015	2016	2017
LG1	C	C	C	C	C	C
LG2			CC	B	BB	BB
LG3				C	B	BB
LG4		CC	C	C	B	BB
LG5				B	CC	B

Source: LG1 documents and newspapers' reports

Given that the ranking results of SAKIP are seen as a symbol of success in managing local government, being in the lowest rank of SAKIP in the province can be seen as a jolt for LG1. Thus, the 2017 SAKIP result is the strongest driver for change at LG1. The pressure is more significant with the increase in publicity from central government (MSABR) on using SAKIP rating score as a main indicator to measure the success of the local government. Thus, "failure" in the SAKIP evaluation was interpreted as failure in managing local government. Consequently, the "SAKIP disaster" in 2017 pushed LG1 top management to rethink what had been done previously, and provided the impetus for them to find more appropriate strategies and methods in order to implement a PMS more effectively in the coming years. It was a major wake-up call for LG1's management to elevate its SAKIP performance, as, ironically, in the same year, LG1 was selected as one of the best local government authorities in planning by a central agency, i.e. the National Agency of Development Planning (BAPENAS). Thus, the top management of LG1 dedicated more effort to ensuring the effective implementation of the PMS.

6.4. Changes made for Substantive Compliance

As per the SAKIP assessment system, local government planning is an important component in the evaluation, as it is weighted at 30%. The rest of the assessment includes measurement (20%) and implementation and reporting (50%). Consequently, the failure of LG1 in completing its planning document had a major impact on its ranking. For this reason, the management of LG1 has started to improve its planning mechanisms.

In dealing with the SAKIP annual evaluation system, specifically for 2018, LG1 has modified its approach, strategy and philosophy. While previously the SAKIP annual evaluation was perceived by the management of LG1 as a ceremonial process, now, management has changed the way they perceive the annual SAKIP evaluation. Moreover, management is more committed to strengthen the programme for PMS adoption throughout every organisational level. This programme, unlike in previous periods, is followed up by more effective and hierarchical socialisation and training programmes for LG1 officers. LG1 also sought guidance from competent consultants from MSABR, Provincial Organization Division, as well as from the local university, gaining the assistance of experts in public sector management. The training and consultation mode was revised in order to improve public sector understanding and skills, with more open and two-way communication, along with more interactive group discussions in those training programmes. Subsequently, monitoring by LG1's Organization Division revealed that most units and divisions have shown significant improvements in their SAKIP score.

7. Conclusion

The key triggers behind the relatively new radical intention of LG1 to adopt a PMS are due to both external and internal factors. The external factor was in the form of the poor SAKIP ranking result, which created social pressures for the city, as other local governments in the same province had improved their ranking as compared to the city. This was compounded by increased MSABR publicity of the ranking results. The yearly publication of SAKIP achievement among government agencies by MSABR seems to be more effective in pushing governmental organisations more strongly to achieve a better ranking in the SAKIP system, and institutionalising the spirit of accountability within governmental organisations. Thus, the adoption and implementation of a PMS were due to external compliance to the ministry's regulations and its consequent social pressures. The barriers to adoption of a PMS correspond to organisational, cognitive and political issues. They are manifested in the lack of skill and knowledge among public officers regarding the system of managing performance, a less contextual and relevant design of the PMS system, and also – equally importantly – political nuisance precluding the approval of medium-term planning and budgeting.

Acknowledgments

The support of Chartered Institute of Management Accountants (CIMA) is gratefully acknowledged.

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