Successful Implementation of Performance Management Systems in Indonesian Local Government

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Successful Implementation of Performance Management Systems in Indonesian Local Government

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Abstract: The implementation of performance management systems in Indonesia’s local government has not achieved its intended benefits. Hence, understanding of the processes necessary to institutionalize PMS, and the facilitators of, and impediments to, a successful implementation is needed. As such, this paper evaluates a successful PMS implementation in local government in Indonesia. The findings revealed adoption relied on directives from senior management and overcoming the organisational members’ lack of technical skills with training and increased levels of supervisory and monitoring mechanisms. The Mayor played a major role in institutionalizing the PMS, especially in integrating the outcome-based measures into the planning, reporting, monitoring and evaluation and reward systems.

Keywords: integrated performance management system, public sector accounting, local government, Indonesia, developing country, organisational change

1. Introduction

By late 1997, the Asian financial crisis had pushed Indonesia into a multi-dimensional crisis which, in part driven by International Monetary Fund reforms, led to a demand for better corporate and public sector transparency and governance. A strong Rupiah and an export-lead economy had allowed weak public sector governance in Indonesia to remain unchecked, resulting in corruption, collusion, nepotism and monopolistic practices. During the 1990s, the Indonesian public sector started a push for better transparency and governance in line the principles of New Public Management (NPM). The underlying philosophy of NPM is the belief that business and entrepreneurial-based techniques should be used to improve government performance (Hughes, 2003; Osborne & Gaebler, 1992). Measuring performance and accountability improvements is an important element of NPM, which is dependent on a range of performance measurement and management systems (PMS).

However, techniques and systems of measuring and managing performance were not introduced by the Indonesian government, including local government, until 1999. Presidential Instruction (PI) No. 7/1999, required governmental institutions to submit performance accountability reports. The operational guidelines for the report were further described in the Public Administration Agency (PAA) Decree No. 589/IX/6/Y/99, which stated that the information required in a performance report is a strategic plan, performance plan and performance measures. What was lacking though, were the types of measures required to be in the report. Subsequently in 2007, the Ministry of State Apparatus and Bureaucracy Reform (MSABR) issued Regulation No. 9/2007 that required the use of outcome/output-based indicators in performance accountability reports. The regulation requires local government to develop outcome-based indicators at a local government level and at departmental level.

Even with the regulations, PMS in Indonesia have not achieved the intended benefits of improving performance and accountability. The evaluation of local government performance by central government has shown unsatisfactory results. After 14 years of PMS in local government, only 24 percent of districts and cities obtained good rankings in 2013. Improving this situation requires determining how PMS are designed and used in successfully in local government. The success and impending factors of system implementation and its use to improve organisational performance will be valuable for the local governments who are unable to meet central government expectations. As such, this paper explains how PMS have been successfully institutionalized and used to improve accountability and performance in Indonesian local government.

2. Performance management systems in local government

Performance management is a key component of public sector management (Araujo & Branco, 2009). It ensures integration between the strategic planning, targets formulation and measurement, and reward and punishment systems (Otley, 1999). The implementation of performance measurement systems in the public sector is problematic because a wide array of performance measures are often applied, which can be difficult to measure,
and diverse stakeholders have different and conflicting requirements (Brignall & Modell, 2000). The success of PMS implementation in local government is mixed. Some studies of Australian local councils have found that implementation of a PMS was not effective in achieving desired organisational outcomes (see for example Baird, Schoch & Chen, 2012), while other studies did uncover positive impacts of PMS.

Studies have also outlined various problems with PMS implementation, such as the lack of interconnection of performance objectives across the different governmental levels (see for example Dormer & Gill 2010). In a Canadian study, McAdam et al. (2011) found operational level activities to be disconnected from strategic level policies. As performance measurement and management at the strategic level is driven by emerging legislation, there is a need for compliance rather than a bottom-up service effectiveness approach. Internal politics, power struggles and disputes within the organisation also result in inaccuracies during the early adoption of PMS (Rautiainen, 2010).

In developing countries, culture plays a role in the way PMS is implemented (Bowornwathana, 2007; Srimai et al., 2011). In South East Asia, Sathornkich and Eldridge’s (2012) review of the Thai Government’s provincial PMS noted the system, in particular the use performance agreements, contributed significantly to a shift towards a more managerial and participative culture and played a crucial role in improving organisational performance. Conversely, Ruzita et al.’s (2012) study of a Malaysian public sector PMS implementation did not find a shift in culture or key performance indicators to reflect changes in strategy. The lack of cohesiveness between strategy and indicators has been cited in other Asian studies. For example, Said (2013) examined the institutionalization of performance management in the Brunei public sector, finding performance management to be decoupled from organisational activities and an additional structure rather than the core driver of the organisation. Essentially, performance management was ceremonially adopted. Likewise, Yang and Modeli’s (2013) study of a Chinese local government department found that performance management reforms in the government sector were insufficient to completely shift from moral approach to merit-based performance.

Other parts of the developing world also experience mixed results. Williams (2006) found the implementation of PMS in South Africa to be influenced by the divide between the political and administrative leadership. Furthermore, a culture of fear had a negative impact on the implementation process, which resulted in the lack of organisational strategy, poor management, inadequate resource allocation, and unimplemented council resolutions. In Uganda, National Annual Assessments influenced local government performance (Kugonza, 2010) by helping them to monitor performance, comply with guidelines, build capacity, account for and better mobilise resources. It also encouraged citizens to hold the government accountable for carrying out their functions within the laws and set regulations. However, one drawback was that the assessments focused more on outputs and compliancy with guidelines rather than quality outcomes. Previous studies in Indonesia also found a host of issues with PMS implementation. At the local Government level, Djamhuri (2009) found performance based budgeting to be institutionalized ceremonially and decoupled from the internal activities because of inexperienced staff, a bureaucratic culture, and the influence of Javanese culture. Additionally, Akbar (2012) found organisational factors had an impact on the development of performance indicators in local government, with legislative and government regulations being the major factor driving performance measure indicators. Similar to Djamhuri (2009), Mimba (2011) found factors such as limited facilities, insufficient data and limited number of skilled staff led to a difficulty in producing performance reports and that reports had limited influence on planning and control.

3. Theoretical framework

This study uses the Burns and Scapens’s (2000) framework, which draws mainly from old institutional economics, to understand the institutionalization process of integrated PMS. Burns and Scapens (2000) developed the model by tracking changes in organisations; how management accounting systems bring rules, how the rules become routine and how the routines become institutionalized (Soin, Seal & Cullen, 2002; Wickramasinghe & Alawattage, 2007). Burns and Scapens (2000) divided the process of institutionalizing routines into four subprocesses. First, institutional principles, which are taken-for-granted assumptions, are encoded into accounting rules and routines. Second, management and staff enact those routines, or resist them if they decide to challenge existing meanings and values. Third, after repeating the behaviours, staff are able to reproduce the routines. Finally, the historical origins of the patterns of behaviour are forgotten and these become the unquestioned way of doing things—accounting routines are institutionalized.
Resistance to new accounting rules and routines, Burns and Scapens (2000) argued, can lead to ceremonial use of accounting within an organisation, resulting in no impact on day-to-day activities, on values, meanings or practices within the organisation. The decoupling of defined and actual day-to-day practices in an organisation typically takes one of two forms (Bromley & Powell, 2012), symbolic adoption or symbolic implementation. Symbolic implementation occurs when an implemented practice becomes a routine activity but is (i) not congruent with organisation’s goals, or (ii) not contributing to the organisation’s goals or intended outcomes. Symbolic adoption occurs when practices do not result in meaningful implementation due to the lack of capacity, thus creating a disconnect between policy and practice. Hence, an organisation’s attempt to adopt accounting practices does not produce tangible changes in daily activities or performance (Brunsson & Olsen, 1993).

However, despite the lack of tangible improvements, there can be unintentional reactions that have real organisational effects leading to a system which is ceremonially implemented (Bromley, Hwang, & Powell, 2012). This suggests that decoupling is not necessarily permanent, but can result in breaking down a complex and dynamic process of resistance to effect accounting change (Oliver, 1991; Siti Nabiha & Scapens, 2005).

4. Research Method

This study used explanatory case study method to gain in-depth understanding of the PMS practice in Sukabumi city (Sukabumi) in Indonesia. Sukabumi has successfully implemented performance management and was listed as the best performing local government in the Ministry of State Apparatus and Bureaucracy Reform’s performance evaluation results in 2013. The data was collected through interviews, document reviews and observations made during research visits from June 2013 to May 2014.

5. Symbolic adoption of PMS

In 1999, the Indonesian central government required all governmental organisations to produce performance reports and to undertake strategic and integrated planning. Sukabumi submitted their first performance report in 2003 and used qualitative indicators to report its performance, for example a reduction in child mortality and an improvement in maternal health. Hence, Sukabumi attached many photos to their performance reports. Budget utilisation was the only measureable indicator used in Sukabumi’s reports. Sukabumi did not implement strategic and integrated planning because the staff did not have the capability and technical skills to formulate measureable indicators. Prior to 1999, the governmental planning was a top down and centralized process. The local governments played a minor role and were responsible only for setting operational expenses for programs and activities. Hence, budget utilisation was the main and most familiar indicator to measure local government performance.

6. Implementation of outcome-based system

In 2007, the Indonesian government introduced outcome-based regulation MSABR No. 9/2007, which required local governments to develop outcome-based indicators at an organisational level and outcome/output-based indicators at a departmental level. Local governments were also expected to formulate strategic plans, which provided the overriding goals and strategies for their operational and departmental plans. The local governmental guidelines also stated that their medium-term plans should drive the outcome/output indicators at departmental level, which in turn should cascade down into relevant programs and activities in the operational plans. Like many local governments, Sukabumi’s lack of knowledge and experience made it difficult to formulate outcome/output-based indicators. The staff were more used to operational measures\(^1\) previously used by the central government to evaluate the performance of local governments. Hence, Sukabumi used input-based measures, focusing on budget spending rather than the outcomes produced.

Despite the directives, some departments in Sukabumi used a bottom-up approach in developing their departmental plans with indicators based on existing programs and activities. Hence, strategic plans were not operationalised into departmental programs and activities. The bottom-up planning approach used by the Heads of Department (HOD) resulted in programs and activities that met three criteria: (1) easy to do; (2) incurred minimal risk; and (3) and did not incur large expenses so there was sufficient budget to execute all planned programs and activities. The indicators were formulated in the departmental plans were not used in measuring performance. To overcome the internal resistance, the Mayor imposed the use of outcome/output-based indicators in Sukabumi. Staff were trained by experts from the State Controller Agency in 2008 and the Planning Department was made responsible to supervise and review the plans of all departments in Sukabumi. The new

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\(^1\) Operational measures a measurement of performance, based on program activities and budget spending.
procedures required department plans to be presented to, and approved by, the Planning Department before Mayoral approval. Programs not aligned with Sukabumi’s strategic plans were eliminated or redeveloped. The department’s control and authority also extended to establishing and supervising a planning division in all local council departments, who were responsible for developing departmental plans, monitoring the execution of programs and evaluating performance.

The Mayor also made other sweeping changes. Quarterly performance meetings with the HODs were established. Also, the local government Secretary collected monthly performance data from all departments in Sukabumi, which was evaluated against targets and reported to the Mayor in quarterly meetings. Any department heads who failed to meet their targets were required to explain the reasons for the failure and to put corrective solutions in place to ensure targets were achieved by year end. The pressure on the departments from the Mayor led to other changes in the department level monitoring and evaluation systems. For example, the Health Department had held performance meetings twice a year, but this was changed to weekly meetings to ensure the programs and activities were executed in a timely manner. Monthly and the quarterly meetings were conducted with other health divisions and centres to evaluate performance against targets. The head of Health Department even applied the Mayor’s method of demanding corrective solutions and regular updates from heads of divisions who failed to achieve the targets.

The Mayor’s rigorous adoption of outcome indicators also improved performance monitoring and evaluation by Sukabumi’s Inspectorate as the internal auditors. Previously, the Inspectorate made an assessment of department performance based on the request from the Mayor. The Mayor changed this, requesting that departments’ performance be evaluated on selected indicators, rather than just a single indicator, budgetary spending. At year end, the Inspectorate examined department performance based on the evaluation guidelines from the Ministry of State Apparatus and Bureaucracy Reform—the same guidelines used by the Ministry to evaluate overall local government performance.

Incentives and rewards also became part of the evaluation process. All departments were ranked with the result announced by the Mayor during the quarterly HOD meetings. Awards with certificates and trophies were made to the heads of the three top departments, which also acted as incentives to the others to improve their performance. Changes were made to data collection to improve the availability and reliability of performance data. All departments were required to have two staff collecting data and preparing performance reports. The local government Secretary directly coordinated and trained data collectors to improve collection techniques, analysis and report preparation. With departmental performance data now submitted directly to the local government Secretary and the department’s planning division, reports were timely and accurate. Previously, the Secretary had to obtain performance data through formal channels by sending a request to a HOD. Not only did the old process take a long time, the data was often incomplete.

The old data collection process also relied on the HODs preparing the performance report. This concerned the Mayor because the HODs were more focused on the budget spending rather than managing department performance against selected indicators. There were several reasons why local governments were not concerned about performance reports. First, the central government did not have supervisory or training programs on how to measure outcome indicators. Second, the central government, while supposedly evaluating the performance of all local governments, in fact checked only a selected few samples. As a consequence, most local governments did not obtain feedback from the Ministry. Third, no discipline or reward system existed. Even if local governments failed to send a performance report or didn’t achieve performance targets, the central government didn’t undertake disciplinary measures. However, with the Mayor’s structured approach, the local government Secretary supervised the preparation of departments’ performance reports and evaluated them before submission to the central government.

7. Embedding performance systems

Even with Sukabumi’s senior management team driving the outcome-based performance system, it took over a year for the new rules and indicators to be routinized in the organisation. During that period, the Mayor, the local government Secretary, the Planning Department and the Inspectorate, continued to enforce the need to improve performance, with each actor focusing on their specific responsibilities. The Planning Department was

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2 The Inspectorate is one of Sukabumi’s 18 departments and 15 units.
responsible for integrating the strategic plan and formulating the indicators, the local government Secretary enforced the implementation of the PMS and monitored achievement against targets, and the Inspectorate was responsible for evaluating performance reports.

One achievement during this time was the HODs’ change in attitude. Initially motivated by the fear of punishment for non-achievement of targets, the HODs over time realized the positive aspects to the organisation, the community and themselves of using outcome-based performance indicators. They were also given the opportunity to choose indicators appropriate for their department even though the indicators may conflict with the Minimum Standard Service Delivery (MSSD)\(^1\) set by the central government. In some cases, the performance indicators set by local government were more demanding than the minimum service standards from the Ministry. Over time, the HODs became familiar with activities related to integrated planning, indicators and performance targets. With regular training and supervision by the Planning Department, Sukabumi’s department HODs and staff developed the capabilities to apply and achieve the outcome/output indicators for their programs and activities. One major improvement was that the HODs started to align their department plans with Sukabumi’s strategic plans, minimising program changes or rejection by the Planning Department. Previously, the HODs were not required to link budgets to strategic plans and just repeated their previous year’s programs and activities with budget increases for inflation, interest and other costs for the current year. However, with outcome/output-based indicators, budgets were to be aligned with the performance indicators in strategic plans. In the beginning, the HODs had difficulty linking budgets to performance indicators so the Planning Department supervised the budgeting process in all departments to ensure all program, activities and budget were integrated with the strategic plans.

Initially, the Mayor handed-out quite severe penalties to HODs who failed to meet the planning procedures or program performance targets. A HOD could be demoted or transferred to another department if they consistently failed to achieve the set targets. Furthermore, HODs were expected to implement recommendations to improve the department performance made in the Inspectorate’s performance evaluation. Failure to do so also brought Mayoral reprimands. The efforts to routinize the rules had a significant impact on the implementation of PMS in Sukabumi. It forced the HODs to understand how outcome/output indicators impacted their plans and programs, and to integrate these with Sukabumi’s strategic plans. These improvements, however, required a high level of planning supervision and evaluation by the Planning Department, and the imposition of punishments by the Mayor to embed the new performance rules and procedures with the HODs.

8. The Institutionalization of integrated PMS

The successful implementation of PMS in Sukabumi was largely due to the Mayor’s enforcement and the assistance from the Planning Department, local government Secretary and the Inspectorate. Their involvement and scrutiny focused the HODs on achieving the targets, which became the main topic of discussion in every meeting. During these meetings, departmental performance was compared with other departments, and HODs became proud of achieving their targets. In turn, HODs encouraged and guided their own staff to achieve the targets, and during department meetings evaluated performance, discussed ways to overcome problems and also developed strategic decisions based on the performance assessment.

The HODs quickly realised the benefits of applying the Mayor’s rigorous performance processes to their own departments. By evaluating the effectiveness of department programs or activities, and linking the contribution of the programs or activities to an outcome, ineffective programs that did not achieve targets were revised or cancelled. In some cases, new programs replaced under-performing older programs. The HODs also used budget information to make decisions. Previously, budget utilization for programs and activities was the only measurement. If programs did not consume all their allocated budget, the money was transferred to other programs and activities. By using a broader set of indicators, the HODs were able see beyond the central government’s budget utilization target to measure the overall effectiveness, efficiency and actual cost of their programs. Additionally, there were able to reallocate budgets based on program effectiveness to achieve their department performance targets. The overall performance of Sukabumi has improved as a result of the performance management system implementation. According to the local government Secretary, most departments achieved at least 80 percent of their targets and some departments were able to achieve more

\(^1\) MSSD regulation from the central government required the city or district to adopt certain outcome/output indicators from the related Ministry
than 90 percent. Their efforts have been recognised as Sukabumi has been awarded best local government by the Ministry of State Apparatus and Bureaucracy since 2010.

To ensure the long-term success of the PMS, Sukabumi has developed an internal succession plan. Each member of Sukabumi’s senior management team is groomed and mentored for their next role. For example, currently the elected Mayor also holds the position of local government secretary in the organisation. This gives the Mayor time to mentor the Head of Inspectorate or the Head of Planning Department to become the next Secretary, with the intention that the Secretary will then be elected to Mayor. This internal succession plan supports the continuity of Sukabumi’s performance policies and programs. In 2013, the previous Secretary responsible for PMS implementation in Sukabumi was elected Mayor. With a thorough understanding of the opportunities to improve the performance system, he instituted changes to further intensify the performance culture in Sukabumi. One change required the Inspectorate, in addition to the Planning Department, to review the integration of plans across all levels of the organisation. Documenting and standardising a wide range of processes and procedures was another change. Performance agreements for employees, even for the lower level employees, were implemented. HOD’s were required to obtain ISO certifications for their departments because external accreditations were expected to further improve Sukabumi’s reputation for achieving outcome-based performance. And incentive schemes were developed to motivate HODs to achieve targets, such as increasing budgets for high achieving departments and linking individual performance to promotions, demotions and work transfers.

9. Discussion and conclusion

During the late 90s, the Indonesian central government introduced performance accountability report in local government. However, due to the lack of supervisory and monitoring systems, the KPI system was not implemented as intended. Moreover, no incentives were in place to encourage local governments to submit the performance reports or meet targets. Consequently, performance accountability reporting had no meaningful impact on the local government. A lack of capacity and capability within the local government meant central government policies were decoupled from practices. In this paper’s case city, Sukabumi, performance measurement was symbolically adopted, with formal rules disconnected from the organisational practices (Bromley & Powell, 2012).

Eight years after the performance report guidelines were issued, the central government introduced an outcome-based KPIs system that required the use of outcome/output based indicators. With no experience of outcome-based indicators, and functional mind-set dominating Sukabumi’s department heads, this new approach floundered during the first year of implementation. Specifically, the local government department were unable to formulate outcome/output indicators or undertake strategic planning. However, the decoupling in Sukabumi was not permanent. Recognising that staff needed skill development, the city’s Mayor imposed the implementation of the KPI system and developed rules and supportive routines. Once these mechanisms were in place, the PMS implementation at Sukabumi turned into a success, despite early resistance. The specific circumstances at Sukabumi required the Mayor to leverage the hierarchical power structures in the organisation’s Planning Department, local government Secretary and Inspectorate to ensure success. This approach can be categorized as formal and evolutionary, as change occurs from the influence of powerful individuals and departments (Burns & Scapens, 2000).

The enforcement of the PMS was followed by changes in department planning and evaluating program results. These new rules helped routinize the PMS and significantly improved Sukabumi’s performance. One example was the establishment of a punishment and reward system to enforce PMS adoption and to motivate the heads of department and other organisational members to improve department performance. The success of the PMS implementation would not have been achieved without a strong and committed leader in Sukabumi. Once the Mayor had decided to mandate use of performance measures, he continued to play a major role by developing effective implementation strategies to embed the new system in Sukabumi’s culture. The use of hierarchical power structures, applying that power to coerce adoption, continuity of leadership and competency in managing change were the keys to successful PMS implementation in a local government organisation such as Sukabumi.

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