IMPROVING GOVERNMENT PERFORMANCE IN INDONESIA:

THE EXPERIENCE OF THE BALANCED SCORECARD IN THE MINISTRY OF FINANCE

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Abstract

To be effective and efficient in the 21st century, public sector organisations need to practise a sound and innovative performance management tool. One tool used for strategic performance management in the public sector is the Balanced Scorecard (BSC). It can assist the definition of better organisational key performance indicators to improve performance outcomes. The BSC system not only promotes synergy and alignment of strategies among departmental and functional units, but also promotes strategic communication for decision-makers to sustain high organisational performance outcomes.

Literature on the private sector and on many developed countries provide evidence that the BSC plays crucial roles in implementing successful changes within an organisation to improve and sustain performance in the global economic environment. The BSC can also be implemented as a strategic performance management tool to promote high-performing public sector organisation in developed countries (Hoque 2011, Umashev and Willet 2008, Kaplan and Norton 2004). However, while there is an abundance of literature on implementing the BSC in the public sector in many developed countries, there is a dearth of literature that explores the situation of public sector organisations in Indonesia.

Employing an explorative-explanatory case study approach on the implementation of the BSC in the Indonesian Ministry of Finance (IMOF) during 2006-2009, the researcher found that the organisation needed a more strategic leadership style in implementing innovative performance management systems such as the BSC. Using the leadership accountability framework as a means to analyse the process of improving and sustaining public sector performance outcomes, this study found four key factors that contributed to successful implementation of the BSC in efforts to improve and sustain the IMOF performance outcomes: leadership effectiveness, strategy and human resource (HR) management 'fit', performance management system and performance governance. Overall, leadership roles are the key factors in improving government performance sustainably.

Keywords: Balanced Scorecard, Public Sector Performance, Strategic Leadership.

Acknowledgements

Now all glory to God, who is able, through his mighty power at work within us,
to accomplish infinitely more than we might ask or think (Ephesians 3:20, NLT).

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List of Abbreviations and Acronyms

ADT	=	Australian Department of Treasury
ALA	=	Australia Leadership Award
APS	=	Australian Public Service
APSC	=	Australian Public Service Commission
AusAID	=	Australian AID
Bappenas	=	Badan Perencanaan Pembangunan Nasional (National Development Planning Agency)
Bappepam	=	Badan Pengawas Pasar Modal (Capital Market Supervisory Agency)
Bappepam-LK	=	Badan Pengawas Pasar Modal dan Lembaga Keuangan (Capital Market and Non-Bank Financial Institutions Supervisory Agency)
BSC	=	Balanced Scorecard
BKF	=	Badan Kebijakan Fiskal (Fiscal Policy Office)
BKN	=	Badan Kepegawaian Negara (Government Employees Administration Agency or the National Civil Service Board).
BPK	=	Badan Pemeriksa Keuangan, (Indonesian Supreme Audit Board)
BPKP	=	Badan Pengawasan Keuangan dan Pembangunan (Financial and Development Supervisory Board)
CEO	=	Chief Executive Officer
CPI	=	Corruption Perception Index
DG	=	Director General
DGT	=	Director General of Taxation
DJA	=	Direktorat Jenderal Anggaran (DG Budget)
DJAPK	=	Direktorat Jenderal Anggaran dan Perimbangan Keuangan (DG Budget and Fiscal Balance)
DJKN	=	Direktorat Jenderal Kekayaan Negara (DG State Asset Management)
DJLK	=	Direktorat Jenderal Lembaga Keuangan (DG (Non-Bank) Financial Institutions)
DJPB	=	Direktorat Jenderal Perbendaharaan (DG Treasury)
DJPK	=	Direktorat Jenderal Perimbangan Keuangan (DG Fiscal Balance)
DJPLN	=	Direktorat Jenderal Piutang dan Lelang Negara (DG State Receivable and Auction)
DJPU	=	Direktorat Jenderal Pengelolaan Utang (DG Debt Management)
DOFAD	=	Department of Finance and Deregulation
DPR	=	Dewan Perwakilan Rakyat (The House of Representatives, Indonesian Parliament)
EFQM	=	The European Foundation for Quality Management
GBHN	=	Garis-garis Besar Haluan Negara (National Development Priorities)
GFC	=	Global Financial Crisis
GPRA	=	Government and Performance Results Act 1993 (The United States of America)
HR	=	Human Resources

HRM	=	Human Resource Management
IDR	=	Indonesian Rupiah
IBI	=	Inspektorat Bidang Investigasi (Special Investigation Inspectorate)
IMOF	=	Indonesian Ministry of Finance
IPB	=	Institute Pertanian Bogor (Bogor Agriculture Institute)
JIT	=	Just in Time
KMK	=	Keputusan Menteri Keuangan Decision issued by the Finance Minister)
KPI	=	Key Performance Indicators
KPK	=	Komite Pemberantasan Korupsi (Corruption Eradication Commission)
KPP	=	Kantor Pelayanan Pajak (Tax Service Office)
KPPN	=	Kantor Pelayanan Perbendaharaan Negara, (Treasury Payment Office)
LAN	=	Lembaga Administrasi Negara (State Administration Agency)
LAKIP	=	Laporan Akuntabilitas Kinerja Instansi Pemerintah (Government Institutions Performance Accountability Report)
LKPP	=	Laporan Keuangan Pemerintah Pusat (Financial Statements of the Central Government)
LAN	=	Lembaga Administrasi Negara (the National Institute of Administration)
MBNA	=	The Malcolm Baldrige National Award
MDGs	=	Millenium Development Goals
MENPAN	=	Menteri Pendayagunaan Aparatur Negara (the State Minister for the State Apparatus Empowerment)
MENPAN-RB	=	Menteri Pendayagunaan Aparatur Negara dan Reformasi Birokrasi (the State Minister for the State Apparatus Empowerment and Bureaucracy Reform)
MOHA	=	Ministry of Home Affairs
MONE	=	Ministry of National Education
MPR	=	Majelis Permusyawaratan Rakyat (the People's Consultative Assembly)
MTEF	=	Medium Term Expenditure Framework
NBFI	=	Non-Bank Financial Institution
NPM	=	New Public Management
OD	=	Organisational Development
OJK	=	Otoritas Jasa Keuangan (Indonesian Financial Service Authority)
Organta	=	Organisasi dan Tata Laksana (Governance and Organisation)
PEFA	=	Public Expenditure and Financial Accountability
PFM	=	Public Financial Management
PGPS	=	Pinter Goblok Penghasilan Sama (Clever or Dumb, Same Income)
PMK	=	Peraturan Menteri Keuangan, (Ministry of Finance Regulation)
PMS	=	Performance Management System
PNBP	=	Pendapatan Negara Bukan Pajak (Non-Tax State Revenues)
PROPENAS	=	Program Pembangunan Nasional (National Development Program)
PP	=	Peraturan Pemerintah (Government Regulation)

RAPBN	=	Rencana Anggaran Pendapatan dan Belanja Negara (Draft of the State Budget)
RMPS	=	Rajin Malas Penghasilan Sama (Diligent or Lazy, Same Income)
RPJP	=	Rencana Pembangunan Jangka Panjang (Long-Term Development Plan)
RPJM	=	Rencana Pembangunan Jangka Menengah (Medium-Term Development Plan)
RKP	=	Rencana Pembangunan Tahunan (Annual Development Plan)
REPELITA	=	Rencana Pembangunan Lima Tahun (Five-year Development Plan)
RKT	=	Rencana Kerja Tahunan (Annual Working Plan)
REPETA	=	Rencana Pembangunan Tahunan (Annual Development Plan)
RENSTRA	=	Rencana Strategik (Strategic Plan)
SAKIP	=	Sistem Akuntabilitas Kinerja Instansi Pemerintah (the Government Institution Performance Accountability System).
SBN	=	Surat Berharga Negara (Treasury Bonds)
SBSN	=	Surat Berharga Syariah Negara (Treasury Sharia Bonds)
SES	=	Senior Executive Service
SMO	=	Strategy Management Office
SMOF	=	Singaporean Ministry of Finance
TSA	=	Treasury Single Account
TQM	=	Total Quality Management
UNDP	=	United Nations Development Programme
UNESCAP	=	United Nations Economic and Social Commission for Asia and the Pacific
UU	=	Undang-Undang (Law)

Chapter 1
Introduction

Public administration reform is a priority in many developing countries (UNDP, 1999). An efficient and effective public sector is seen to bring the developmental returns that citizens and government want. Thus, public administration reform promises to promote economic development, enable sustainable human development, help to achieve the Millennium Development Goals (MDGs), contribute to poverty alleviation and accompany democratisation (Turner & Hulme, 1997; WB & ADB, 2003; UNDP, 1999).

It has often proved difficult to achieve success in public administration reform in developing countries. Instead, public administration remains accused of underperformance and poor service delivery (Turner & Hulme, 1997; Polidano, 1999; Polidano & Hulme, 2001). The areas of reform identified in the public sector of developing countries, include low capacity in policy-making and poor policy outcomes; lack of accountability; patrimonialism, non-merit based recruitment and promotion; inadequate skills and knowledge; and lack of sustainable performance and governance systems (Turner & Hulme, 1997; Girishankar, 2001; Wescott, 2008).

For Indonesia, there are four key problems in the public administration inherited from more than 30 years of autocracy under the New Order regime. These problems are: the pervasiveness of patronage; fragmentation of strategy including lack of HRM alignment to strategic objectives; loyalty-based management system; and poor governance systems (Turner et al., 2009; Prasojo, 2012). These problems have led to an underperforming bureaucracy and are regarded as reasons for reform. The seriousness of these problems and their adverse effect on performance has been acknowledged by post-Soeharto governments, civil society, citizens, the private sector and multinational donors (Turner et al., 2009; MENPAN, 2009; Prasojo, 2012). This pressure has motivated the Indonesian government to initiate a bureaucracy reform agenda and galvanise the leaders of the government institutions to transform the Indonesian public sector into a world-class operation by 2025 (MENPAN, 2010).

In order to achieve these ambitious aims, the Indonesian government has looked for guidance from what it perceives to be successes elsewhere. One source of such success is seen to have been the New Public Management (NPM) which led to major changes in the public sectors of Western countries especially those with Anglo-Celtic backgrounds: Australia, Canada, New Zealand, the United Kingdom and the United States of America. NPM involved a paradigm shift in the principles of public sector management in all developed countries to varying degrees (Hood, 1995). The reform agenda of NPM focuses on developing the capacity of public administration to better manage performance based on outcomes (Hood, 1995; O'Donnell & Turner, 2005). According to NPM thinking, it is necessary to enable public sector organisations to achieve high levels of outcomes in terms of better public services. One important aspect of NPM for this thesis is leadership accountability to achieve sustainable performance outcomes. It has become a key issue in leading and managing public sector organisations around the world (AGRAGA, 2010; Sharma & Gadene, 2011).

Various tools have been introduced to manage performance as prescribed by NPM. This thesis examines the introduction of one of these performance management tools to a public sector organisation. The tool is the Balanced Scorecard (BSC), which was designed for the private sector as a way of promoting and implementing strategic performance management to gain high organisational performance and accountability. The success of the BSC in the private sector led to public sector interest and the adoption of the BSC there. In Indonesia, the initial public sector reforms of the 2000s involved pilot organisations and a focus on performance improvement. In one of the pilot organisations, the Indonesian Ministry of Finance (IMOF), this involved the application of the BSC. All stakeholders have made favourable reports on the results of the BSC's introduction to the IMOF. This thesis is particularly concerned with identifying the factors that contributed to this successful implementation of the BSC, the challenges faced by the MOF and how they were addressed, and the role of leadership in introducing and sustaining performance through the BSC.

Background

The business of improving organisational performance has always been a concern in both the private and public sectors. Many techniques have been developed to produce more efficient, effective and responsive organisations and to sustain the new levels of performance. But, organisational change tools that have been designed for improving the

performance of private sector organisations may also be applicable to many public sector organisations (Rhodes et al., 2008; Michalska, 2008; Brignall & Modell, 2000).

Over the past 50 years, a variety of organisational change tools has been developed and applied especially in developed countries. These change tools have included diverse approaches such as Organisational Development (OD), Just in Time (JIT), and Total Quality Management (TQM). The purpose of these change models has been to promote reforms for continuous improvement of business process and organisational performance. In recent years, this quest for reform has led to the development of multidimensional performance management systems. The term 'multidimensional' refers to a performance management system that employs innovative methods, including the adoption of special quality methods to provide performance excellence to satisfy all the organisational stakeholders (Bolden et al., 2003). These systems seek high quality performances in terms of products or services, with the system eventually guiding all elements of the organisation to make continuous improvement in their business processes to the satisfaction of all stakeholders (Australian National Audit Office [ANAO], 2009; IBM, 2010).

There are at least seven multidimensional frameworks for the private sector and nine for the public sector that are presented as performance excellence frameworks and are being used (Bolden et al., 2003). There are also eight generic models or frameworks offered as tools for developing sound performance management and control systems across whole departments or units within an organisation. These performance frameworks can be made applicable for both the private and public sectors (Bolden, et al., 2003). They include the 7S McKinsey Model (Kaplan, 2005), the European Foundation for Quality Model and the Business Excellence Model (Michalska, 2008), the Malcolm Baldrige National Awards Framework (MBNA, 2009) and the Balanced Scorecard (Rhodes et al., 2008, Kaplan and Norton, 1996b, 2001, 2004a).

The most popular model of performance management has been the BSC. The BSC was initiated for the private sector in the 1990s for firms to secure competitive advantage in the global marketplace (Kaplan & Norton, 1996b). The BSC approach, as its name indicates, involves the promotion of a balance among financial and non-financial, and internal and external aspects of the organisation for designing and improving organisational strategies and key performance indicators. One component of the BSC, 'strategy mapping', is used to

drive all the other components of the organisation in a coordinated fashion to achieve the organisation's mission and vision.

Between 1995 and 2000, the BSC became popular among private sector organisations across the globe particularly for promoting the balanced perspective between financial and nonfinancial measures to achieve superior organisational performance (Jonash, 2006; Kaplan & Norton, 2001). The results of a web-based survey taken in 2000 involving 300 respondents from various industries found the most common reason for adopting the BSC was that it was capable of helping leaders to adopt clear organisational direction. In addition, this tool was appreciated for promoting synergy to achieve vision by aligning departmental strategies and organisational functions, building a balanced performance management system, and linking organisational strategies to planning and budgeting (Kallas & Sauaia, 2006).

In public sector organisations in many developed countries, the BSC has been implemented in line with the idea of reforming the public sector under the NPM paradigm. This NPM paradigm places a strong emphasis on results-based performance and its management (Hood, 1995; Rose & Lawton, 1999; Hoque & Adams, 2011). The BSC has been adopted by public sector organisations as they have seen good results from its use in the private sector. Also, it was a novel tool that it was hoped could produce improvements in public sector performance in difficult times. Case studies of the implementation of the BSC in public organisations in many developed countries revealed that these organisations could produce better quality performance management and strategic planning results by aligning strategies and key performance outcomes from different units within the organisation (Chan, 2004; Hoque & Adams, 2011; Kasperskaya, 2008). A spur to the adoption of the BSC to improve public sector performance and accountability was the NPM's increased focus on value for money in government expenditures and service delivery (Sharma & Gadene, 2011).

In contrast, public sector organisations in developing countries have been much slower to adopt the BSC. Consequently, there have been very few studies of the BSC involving the public sector in developing countries. Little is known, therefore, about the experience and potential of the BSC for performance improvement in developing countries. Indonesia is a developing country where experimentation with the BSC has been an integral part of the public sector reform program. By using the case study of the IMOF in Indonesia, the thesis explores the implementation of the BSC in a developing country. It is concerned with

identifying the factors that contributed to the BSC's successful implementation, the challenges faced and the role of leadership in implementation.

Following the Asian Financial Crisis in 1997, the Indonesian government has been implementing public sector reform initiatives for more effective and efficient public administration at central and sub-national government levels. It was hoped, among other things, to enhance accountability and transparency as key aspects of improving performance outcomes for government (Turner & Hulme, 1997; Turner et al., 2009; Horhoruw et al., 2012). The introduction of the BSC as a strategic performance management system in some government institutions came in 2007. This stage of the reform program aims to achieve better public service delivery and improved governance to combat systemic corruption in the public sector. Thus, during 2007-2009, the Indonesian government launched a reform program in several pilot organisations, including the Supreme Audit Office and the IMOF. This involved implementing the BSC to improve organisational performance outcomes (IMOF, 2008c).

Leaders in the IMOF and other pilot organisations had observed that many private sector and public sector organisations in developed countries had gained significant benefits from implementing the BSC as a strategic performance management tool (Kaplan & Norton, 2004a; Mathys & Thompson, 2006; Umashev & Willet, 2008). The BSC implementation in the IMOF thus became part of the overall bureaucracy reform agenda to promote continuous performance improvement (IMOF, 2008c). It was hoped that the BSC could drive the organisation to focus on Key Performance Indicators (KPIs) and achieve higher performance outcomes. At about the same time, other pilot organisations in the bureaucracy reform program among central agencies including the Commission for Corruption Eradication (Komisi Pemberantasan Korupsi-KPK), Indonesian Supreme Audit Board (Badan Pemeriksa Keuangan-BPK) and the Central Bank of Indonesia, also implemented the BSC as a tool to achieve improved and sustainable performance outcomes (Rhodes et al., 2008; IMOF, 2009).

The World Bank and IMOF leadership and management generally accept that bureaucracy reform, particularly the implementation of the BSC, has been successful in the IMOF (IMOF, 2010; Horhoruw et al., 2012). This thesis is particularly concerned with exploring the conditions that account for this success. Thus, the objectives of this thesis are:

- to establish how the BSC was implemented in the IMOF;
- to identify the key factors accounting for the successful implementation of the BSC in the IMOF;
- to determine the role of leaders and the impact of leadership in the BSC implementation to improve and sustain organisational performance outcomes.

In order to achieve these objectives, the study addresses the central question: *How can the BSC be implemented successfully to improve and sustain public sector performance outcomes?* The study examines the implementation of the BSC in the IMOF, paying particular attention to the factors that influenced success and challenges in the reform. Review of the literature on the BSC as a tool to improve public sector performance suggests that there are four key elements that should be explored for evaluating the implementation of the BSC in the public sector (Van Wart, 2003; Kaplan & Norton, 2004b; Ireland & Hitt, 2005; Graetz et al., 2006; Jing & Avery, 2008; Bouckaert & Halligan, 2008; Daft & Pirola-Merlo, 2009). These four elements, which will be described in detail later, are:

1. Leadership effectiveness
2. Strategy and human resource management 'fit'
3. Performance management system
4. Performance governance

In order to examine these four key factors, several secondary research questions were developed as follows:

1. What factors contributed to the successful implementation of the BSC in the IMOF?
2. What role did leadership play in the implementation of the BSC in the IMOF?
3. How were organisational strategies developed under the BSC approach, and how were they aligned with HRM and departmental strategies among units within the IMOF?
4. What role did the BSC play in improving the organisational performance in the IMOF?
5. To what extent were stakeholders' concerns accommodated in the IMOF's BSC system?

The answers to those questions provide insight into the factors that affect the reform process to improve public sector performance. Literature on the private sector provides evidence that

the BSC can play a crucial role in transforming business organisations to become high-performing. However, there is much less literature that explores how to adapt and successfully implement the BSC in the public sector. While there is a limited amount of literature on the BSC in public sector organisation in developed countries there are hardly any studies on developing countries such as Indonesia. This is problematic as developing country governments are all engaged in public sector reform to improve the performance of public sector organisations. They are under pressure from citizens, the private sector, civil society and donors to make services more effective, efficient and responsive. They are thus engaged in a search for tools which will help in these pursuits. The BSC is one such tool that is widely known in the private sector and among some developed country governments and for which there has been considerable positive feedback. But developing country reformers do not know whether this tool initially designed for the private sector in developed economies will perform as required in the context of developing country government organisations. This study on the implementation of the BSC in the IMOF contributes to reducing this knowledge gap. It seeks to answers to questions about whether the BSC is an appropriate reform instrument in the public sectors of developing countries, how it should be implemented and the problems that might be encountered. Most importantly, it seeks to identify the key elements for successful implementation and modification in developing country public sector contexts. It is therefore relevant not only to the bureaucratic reform agenda in Indonesia but also to developing countries more generally.

This study provides new knowledge about the implementation of the BSC in the IMOF as a large and complex public sector organisation. As a result of the literature review, a conceptual framework has been developed for guidance in collecting data and analysis. This framework has been used as guidance for asking questions to the respondents in determining factors that contribute to and threaten successful implementation of the BSC in the IMOF. The same framework has been used as a means to provide the exploratory-explanatory analysis on how to successfully implement the BSC as an innovative tool for the management of public sector performance. The findings of this study should lead to a better understanding of the topic on the part of policy makers and managers and assist them in promoting sustainable performance excellence in the IMOF and Indonesian public sector organisations in the 21st century.

Research Map

A research map has been used to design this study. Crotty (2005) distinguished four main elements of research (i.e. epistemology, theoretical perspective, methodology and method). These are foundational for developing a social research proposal and all of these elements are evident in the research map (Figure 1.1). The map describes the research process in a systematic framework to guide research activities, covering the research question and discussion on the epistemological position of the research, leading to the choice of research methodology and methods. The conceptual framework that resulted from the review of literature is also used to guide data collection and analysis to answer the research question leading to conclusions and knowledge development.

According to Crotty (2005), the research design involves a selection of the epistemological stance, and then a description of the logical assumptions about the theoretical perspective to form the philosophical standpoint that provides the context for the chosen methodology. The research methodology serves as the primary source of justification for the selected research methods that will produce knowledge (Crotty, 2005; Carter & Little, 2007).

Figure 1.1. Research Map
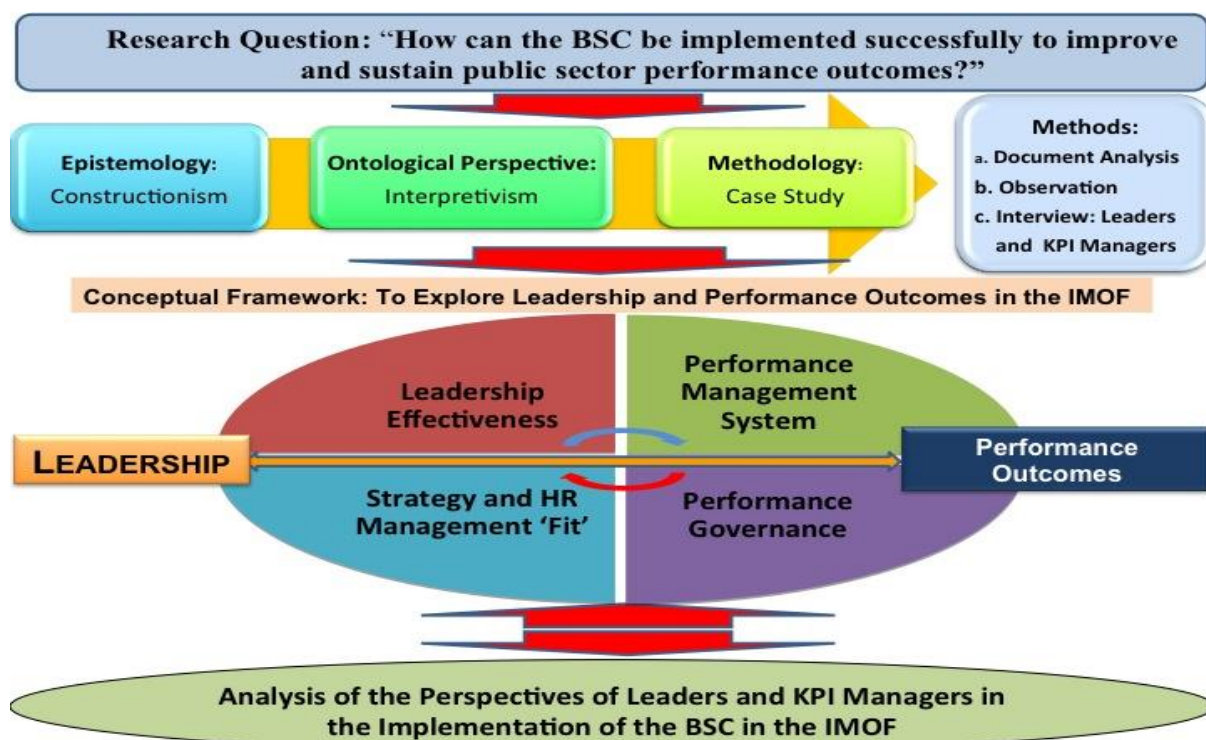
Source: Adapted from Kuhn, 1962; Eisenhardt 1989; Crotty, 1998, 2005; Carter & Little, 2007

Constructionist epistemology

Epistemology provides a base to evaluate the knowledge generated (Carter & Little, 2007). Epistemology can be defined as the theory of knowledge as it provides philosophical ground for conducting the research, and deals with the nature and scope of knowledge (Crotty, 2005). The three major epistemological stances are objectivism, constructionism and subjectivism (Crotty, 2005). Constructionism is the epistemological approach adopted in this study. It posits that meaning is not discovered but constructed by the participants and the researcher through the research process (Crotty, 2005; Blackman et al., 2005).

In a constructionist approach, the interactions between people and objects in a performance management system are important, especially in terms of how the actors interpret and construct the phenomenon of a performance management system (Shields, 2007). Criteria to define and measure performance are subject to an agreement between leader and followers. These criteria are constructed through an ongoing communication process oriented to achieving the organisation's expectations. This process will be subject to negotiation and adaptation. The constructionist stance on managing performance is different from a positivist stance, which instead focuses on a prescriptive approach to achieving performance outcomes.

Following the constructionist approach and based on the nature of reality (ontology), inquirers make the assumption that reality is subjective and multiple, as seen by different participants in a study (Creswell, 2007). With regard to the topic of this study, questions have been raised about the nature of leadership as the polity moves from centralised authoritarianism to decentralised democracy. It seems that the change in the formal structure and processes was not totally followed by changes in the informal structure and processes in the bureaucracy (Turner, 2001). For instance, this assumption is in line with the findings that patronage still exists in the public service in the post-Soeharto era in Indonesia (Blunt et al., 2012). Patronage culture in the bureaucracy demands obedience and loyal to the leader's direction under any circumstances rather than to any higher organisational vision or mission. This situation could be an unfavourable environment for performance-based management as introduced by the Indonesian bureaucracy reform agenda (MENPAN 2010). This condition may happen because leaders in Indonesian public sector organisations still impose loyalty or patronage leadership styles in the bureaucracy rather than a performance-based leadership style. Consequently, to explore whether multiple realities in managing performance exist during the reform process, study of the performance management system in Indonesia should

consider the perspectives of practitioners who are in charge of the process of determining and achieving the organisational performance outcomes and the staff they are leading.

Interpretivist theoretical perspective

Research that is informed mainly by the perspectives of actors utilises a qualitative methodology (Creswell, 2007). It is grounded in the interpretive social sciences, which aim to understand meanings ascribed to phenomena such as behaviour, structures and culture. Such an interpretive orientation is used in this thesis to study the implementation of the new performance management system based on the BSC approach in the IMOF. It is inductive in nature, based on people's perspectives and data associated with the BSC implementation (Jennings, 2001; Carter & Little, 2007).

Several theoretical perspectives for research are positivism, post-positivism, interpretivism, critical inquiry, feminism, and post-modernism (Carter & Little, 2007; Crotty, 2005). Interpretivism is the best theoretical perspective for this exploratory study as this approach takes respondents' perspectives and also accepts the interpreter's own beliefs and values (Crotty, 2005). However, to avoid over-reliance on stakeholder perspectives for explaining human behaviour, this study does not dismiss the positivist approach. The conceptual framework, which was developed to design the research questions, is also used as a means for analysis based on empirical data from fieldwork. It was used as a guide to explore and analyse the multiple perspectives of the key players in implementing the BSC (Eisenhardt, 1989).

Interpretivism can be divided into three main streams: hermeneutics, symbolic interactionism, and phenomenology (Crotty, 2005). Hermeneutics and symbolic interactionism are not the types of interpretivism that will be used to describe the impact of the leaders' actions and the process of implementing the BSC as a strategic performance management system in this research. Hermeneutics focuses on objectively learning about the subject and the subject's world and giving much lesser roles to participants' perspectives and the interpreter's own beliefs and values (Crotty, 2005). The symbolic interactionism deals directly with social interactions through language, communication, interrelationship and the community. Consequently, it requires the researcher to put him/herself in the place of actors and acquire their perceptions, attitudes and values in an organisation (Crotty, 2005). The symbolic interactionism is suitable for conducting research which focuses on the processes of people's

social interactions by exploring language, words, and symbols which are used to convey their meaning and facilitate the interaction (Glaser & Strauss, 1967; Denzin, 1978). This research explores the topic using phenomenology as part of the interpretivist theoretical perspective (Crotty, 2005). Phenomenology is based on the assumption that the world can only be described by individuals who experience it (Merleau-Ponty, 1962). According to Husserl (1970) phenomenology can be used to establish the structure and meaning of experience for better understanding of the phenomena under study. Phenomena in this research consist of a complex of relations between persons in an organisation and with the environment. Phenomenology uses human lived experiences to understand the phenomenon, which, in this thesis, is the implementation of the BSC in the IMOF. The relationships between persons in an organisation in the process of implementing a new strategic management tool are assumed to have intrinsic structures and meanings (Baker et al, 1992; Rolfe, 2006; Wimpenny & Gass, 2000; Duffy, Ferguson & Watson, 2002). In order to better understand the phenomenon in the IMOF, gathering perspectives from leaders and key players in the implementation of the BSC in the Ministry is the best way to see the world through their eyes (Eisenhardt, 1989; Crotty, 2005). From analysis of the findings it is possible to delineate and evaluate factors that contributed to or challenged the success of the implementation of the BSC in this public sector organisation.

The conceptual framework

The conceptual framework guiding this research has been developed from the synthesis of literature on how the BSC can be implemented successfully to improve and sustain public sector performance outcomes (see Figure 1.1). The aim of the framework development is to provide the means for designing research questions and developing analysis based on the research findings.

One of the missing elements in the study of the BSC in developing countries is identification of the factors that lead to successful implementation. In the literature from developed countries, four factors recur regularly as key BSC enablers. These are leadership effectiveness, strategy and HR management 'fit', the performance management system, and performance governance (Kaplan & Norton, 1996b, 2001; 2004a; Holmes, Piñeres & Kiel, 2006; Shields, 2007; Stoker, 2006; Bouckaert & Halligan, 2008).

One of the objectives of this thesis is to ascertain which are the important enablers in the context of the IMOF and to understand why. What combination of enablers works best? This will inform future efforts to introduce BSC in other Indonesian government organisations, and perhaps in other developing countries. First, leadership effectiveness is judged by how leadership has provided clear direction and gained employees' commitment towards improving organisational performance outcomes. Additionally, it is the leader's role to set the new organisational culture and open communication channels to deal with organisational resistance and politics (Holmes et al., 2006). Second, strategy management deals with how to find ways to improve performance. The success of strategies for improving organisational performance depends on achieving alignment between central or top level strategies and the lower level business unit strategies (Kaplan & Norton, 2001c; Shields, 2007). The third factor is the organisation's performance management system, that is the processes which the organisation uses to encourage enhanced performance from its staff, the ways in which performance is monitored and evaluated, and the setting of performance standards. Thus the performance management system should be a powerful support mechanism in managing the process of improving organisational performance (Bouckaert & Halligan, 2008; Kaplan & Norton, 1996a, 2004a). Finally, there is performance governance, a key element of which is stakeholder participation in better designing and monitoring the strategic performance management system so that higher and more sustainable performance outcomes can be achieved (Bouckaert & Halligan, 2008; Stoker, 2006). Stakeholders can be both internal and external to the organisation. This research investigates the role of all of these factors in the implementation of the BSC in the IMOF. Discussion of this conceptual framework is further covered in Chapter 3 of this thesis.

Case study methodology

In order to answer the research questions and to be able to delineate and evaluate factors in the process of implementing the BSC in the IMOF and to address the main research questions in this study, a case study methodology has been adopted (Yin, 2003). An intensive case study in a large government organisation can provide in-depth understanding of a specific phenomenon in the public sector reform agenda in a developing country (Gerring, 2007). This case study is singular in that it focuses on the implementation of the BSC as a strategic performance management system in a single ministry, the IMOF. The scope of the implementation of the BSC in the IMOF involved all twelve organisational units and their

62,000 employees. The case study is an exploratory-explanatory study. The selection of the IMOF as a case study was based on the organisation's readiness to become a pioneer for the Indonesian bureaucratic reform agenda and its complexity as a large organisation providing a range of public services. It is important to analyse the nature of the engagement of the top leadership in the promotion of the BSC and the commitment of the top leadership to implement the BSC in all units under the Ministry.

As an employee of the IMOF, the researcher was able to both observe and be a participant in the implementation of the BSC prior to commencing this doctorate. Interviews and observation were undertaken later during the field studies for this doctorate. The use of multiple qualitative methods enables this study to confirm the findings by triangulation, thus enhancing the validity of the research (Denzin, 1978). For instance, when the researcher hears about a particular phenomenon in interviews, this can then be compared to the findings from observation and from reading relevant documents until it can be concluded confidently.

Research methods

The case study methodology uses multiple techniques for collecting data (Crotty, 2005; Creswell, 2007). There are four main techniques or methods for producing data: document analysis, personal observation, interviews and questionnaires (Crotty, 2005; Creswell, 2007). This case study used three of these methods: in-depth semi-structured interviews of leaders and senior officials involved in the process of BSC implementation in the IMOF, personal observation; and secondary data.

The first qualitative research method was in-depth semi-structured interviews. Fieldwork enabled in-depth interviewing of key informants in the IMOF. The respondents were encouraged to talk by posing thematic questions and asking them to explain their answers and viewpoints (Eisenhardt, 1989; Yin, 2003). The most important aspect of the semi-structured interviews was that questions were open-ended, thus encouraging respondents to discuss the issues and share their perspectives (Yin, 2003; Kayrooz & Trevitt, 2005). Each interview took from half an hour to two hours. The semi-structured interviews enabled the interviewer to gather quality data and helped the interviewer to establish effective relationships with the interviewees in order to gather their perspectives on the object of the study, the BSC (Jennings, 2001; Kayrooz & Trevitt, 2005). In addition, following Jennings (2001), the in-depth interviews were not conducted in a group format but were individually focused. Semi-

structured interviews are rarely, if ever, conducted with groups, as the point of semi-structured interviews is to gain in-depth answers from individuals in an atmosphere of trust and confidence.

The in-depth interviews involved two broad categories of informants: elite informants and those who were dealing with the daily activities of strategic performance management in the IMOF. The elite interviewees included the Finance Minister and the top-level executive in each of the 12 major divisions of the ministry, two other relevant senior officials and four special advisers to the Finance Minister (See Appendix G). The second group included the head of the Strategy Management Office of the ministry and 12 Key Performance Indicator managers of all units within the IMOF. Several other key staff in the IMOF were also interviewed in order to gain further understanding of the technical aspects of the implementation process.

The second qualitative research method employed was personal observation. The researcher had extensive access during the first three years of the design of the IMOF strategy maps and cascading process of the BSC down from the top to lower levels of the ministry. He was also actively involved in coordinating the technical process of compiling and preparing materials from 12 ministry units for the quarterly performance evaluation meetings chaired by the Finance Minister from 2007 until early 2009. Further observation was made of selected ministerial meetings in the IMOF strategic performance evaluation in 2010-2011 following the appointment of the new Finance Minister, Agus Martowardojo, on 20 May 2010.

The third qualitative research method involved the secondary data. This method was used to provide information relating to BSC implementation. A variety of official documents were consulted. These included:

a. Minutes of the ministerial meeting for the pioneering Indonesian Bureaucratic Reform 2007.
b. The IMOF-Wide Strategy Map and Key Performance Indicators based on the BSC 2007-2009.
c. Project Documentation for the development of IMOF Strategy Maps and the Key Performance Indicators, target and measurements criteria (2006-2009).
d. Presentation materials and minutes of the quarterly meetings on performance management, in which the process of implementing reform and strategic performance evaluation based on the BSC, were discussed with the Finance Minister (2007-2010).
e. Laws and government regulations regarding the Indonesian public financial management reform and IMOF bureaucracy reform.

In addition to those official documents, the researcher used academic literature, reports, newspapers, magazines and articles related to the topic gathered from the Word Bank and ADB websites, libraries at the University of Canberra and the Australian National University as well as the National Library of Australia. Materials gathered were in both printed and electronic form. There were also printed materials and notes from various activities such as internship, benchmark studies and the leadership workshop for Senior Executive Service (SES) in Australia. The internship aimed to explore the organisational and individual performance management at the Australian Department of Finance and Deregulation, and the Australian Department of Treasury. The internship was for a month in 2011, under the leadership development program of the Australia Leadership Award (ALA) scholarship, Australian AID (AusAID). The benchmark studies of the implementation of strategic performance management were done in 2008, at the Singaporean Department of Finance; in 2008, at the United Kingdom's Prime Minister Delivery Unit; and in 2010, at the Australian Prime Minister and Cabinet Office and Centrelink Australia. The researcher also had an opportunity to learn about the Australian integrated leadership framework in 2011, during the SES leadership workshop held by the Australian Public Sector Commission. These sources contributed significantly to the development of the conceptual framework for this study.

Data analysis and research outcomes

To guide analysis for answering the research questions, a thematic and rival theory approach was adopted (Yin, 2003). The thematic terms were used for factors that enabled the success of implementing the BSC in the IMOF. The rival theory approach was applied by discussing the challenges faced by interviewees particularly with regard to the four key elements of the conceptual framework developed for this study. This process was initiated immediately after the data collection process. The data collection process produced texts, transcripts and audio-recordings gathered in particular from the interviews. With the extensive support from computer software for coding and categorising the large amounts of data collected from the interviews and documents, analysis could be undertaken. Following Eisenhardt (1989) and Wiersma and Jurs (2005), in line with phenomenology theory, data reductions were done for better presenting, describing and interpreting the phenomena derived from respondents' answers to the researcher's questions during interviews. This also involved translating the responses from Indonesian to English, sorting the data into themes and rival themes until finally saturation was reached to conclude the research process.

Improving validity and reliability

There are four logic tests for judging the quality of research designs: internal validity, construct validity, external validity and reliability (Yin, 2003). In the case of the first test, the internal validity deals with the development of valid causal relationship between observed changes with the cause of the changes (Crosthwaite et al., 1997; Yin, 2003). For this research, the key question in measuring internal validity was whether or not the IMOF performance outcomes could be attributed to leadership. To achieve an internally consistent theory for this study, the causal relationship between leadership and organisational performance outcomes was established in the conceptual framework based on the literature review (see Chapter 2).

In the case of the second test, the construct validity, there is always the challenge of whether the investigator can truly reflect the events reported in the study (Yin, 2003). Thus, two main tactics were adopted to strengthen the construct validity employed for this study. Those tactics were triangulation and chain of evidence during data collection (Denzin, 1978). Triangulation of data, necessary to improve the construct validity for this study, was achieved by using multiple sources of data. There were the responses of two categories of interviewee, documents from the IMOF and Indonesian government more generally, and the researcher's own observations from both working in the organisation and from field studies in it.

The third test, external validity, deals with whether or not the research can be generalised (Crosthwaite et al., 1997; Yin, 2003). However, the generalisation for a case study, as part of the qualitative research, can only be done cautiously and only to a small degree (Creswell, 1998; Yin, 2003). As a single case study, the mode of generalisation of this study is an analytic generalisation based on the results of the analysis of the empirical data of the case study using the conceptual framework (Yin, 2003). In addition, this research does not make an inference about a population comprised of all public sector organisations in Indonesia. Each organisation in the Indonesian public sector has its own characteristics and the data from the IMOF are not intended to precisely represent all public sector organisations in Indonesia. Rather, the analytic generalisation is developed based on the result of the comparison between the conceptual framework and the empirical result of the case study.

The fourth test, reliability, is based on whether or not this method is replicable (Kidder & Judd, 1986). Joppe (2000) in Golafshani (2003, p.598) defined reliability as

> …the extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable.

Reliability testing for qualitative research should be referred to its capacity to provide 'understanding' rather than 'explaining' the phenomenon in the study (Stenbacka, 2001). In addition, Campbell (1996) proposed the concept of consistency as a reliability measure of the qualitative research. Consistency can be achieved where "the steps of the research are verified through examination of such items as raw data, data reduction products and process notes" (Golafshani, 2003, p.601). To promote reliability for this study, the research map has been designed to demonstrate that the methodology of a study such as the data collection procedures is consistent in treating the findings from leaders' and KPI managers' interactions and responses to the research questions. Furthermore, all available raw data findings have been transcribed, and based on the reduction products have been classified and coded. The defined factors that supported and challenged the successful implementation of the BSC to improve and sustain performance outcomes have been mapped from the four key elements of the conceptual framework. Finally, a conclusion can be made based on the fit of the responses to the conceptual framework as a means for analysis to answer the research questions.

Limitations and ethical considerations

One possible limitation of this study is insider bias because the researcher is both researcher and a member of the organisation being studied. There is also the risk that interviewees may have been biased towards positive reporting as they had a vested interest in the BSC being seen as successful. But it is recognised that respondents' perspectives are developed from lived experience. This acknowledges that respondents do bring their own interpretations or constructions of reality to the research. As respondents, the senior officials in the Finance ministry may have said what they thought the researcher wanted to hear and painted positive pictures of situations that in reality were not altogether positive.

It was, nevertheless, necessary to focus on these officials, as they were the leaders and managers of the BSC implementation and therefore were thoroughly familiar with it. Their perspectives were invaluable. Even though it is very hard for qualitative researchers to maintain objectivity in qualitative research, this approach is effective for describing and

understanding the world of human experiences (Creswell, 1998; Yin 2003). In addition, it has been indicated that the ontological perspective of this research is interpretivism and not objectivism.

The key role of the researcher in the implementation of the BSC is both a strength and a weakness. One strength is that it brings considerable prior knowledge to the research and facilitates access to key respondents. A possible weakness is the potential bias towards positive reporting because the researcher's career in the IMOF relies in part on satisfying higher-placed officials. The researcher had been involved in the IMOF's reform team. He was the deputy director of the IMOF Delivery Unit. As such, he acted as the team leader in developing the Strategy Management Office to coordinate the cascading process of the implementation of the BSC throughout the 12 units of the IMOF between 2007 and 2009.

As an interested insider, it can be difficult to remain a detached and objective observer during the life of a study. Some researchers have noted that how "an insider 'sees' and 'understands' will be different from, but as valid as, what an outsider understands" (Merriam et al., 2001, p.415). Thus, Merriam et al. (2001) concluded that an insider researcher can produce as valid research as an outsider. In addition, according to Mercer (2007), the extent to which a researcher is labelled as insider or outsider is not dependent upon a single inherent characteristic such as job status. By imposing due professional care and creative consideration, the researcher's past experience may enable the researcher to ask the most appropriate questions during interviews and acquire invaluable findings on the most important elements of the research (Merriam et al., 2001; Ravitch & Wirth, 2007; Galea, 2009).

By trying to adopt a more objective stance, the researcher can in part distance the self from such influences. As an employee of the IMOF, this researcher's relationship with the researched topic is not static, but has fluctuated, shifting back and forth, based on the possibility, moment, location, interaction and topic of discussion. The researcher also resigned from holding the post in the IMOF Strategy Management Office and took study leave for four years from 2009. Furthermore, in order to strengthen the ethical conduct (Mercer 2007), the research did not focus on evaluating the effectiveness of the implementation, which was part of the researcher's past responsibilities. Rather, the focus of the study was on exploring the leadership role in implementing the BSC to improve and sustain IMOF performance outcomes as part of the reform agenda in the Ministry.

Moderating personal researcher bias was also facilitated by adopting an ethical approach to research as prescribed in the National Statement on Ethical Conduct in Human Research (National Health and Medical Research Council [NHMRC], 2007). Research should be carried out systematically, skeptically and ethically (Hart, 2005). This research ensured that the identities and other confidential information on participants were protected. The researcher created a safe environment for participants to share information and ideas and only recorded or published respondents' views after the respondents' personal consent had been granted.

Thesis Structure

Chapter 1 introduces the topic of the research, background, rationale, research objectives, research methodology and methods and outlines the thesis structure. This chapter also provides a brief account of previous studies in the area, identifies a research gap and indicates the contribution to knowledge of this research.

Chapter 2 provides the literature review on the BSC, its origin, purpose, and the factors contributing to its successful implementation in the public sector. This chapter reviews the findings from previous studies on the implementation of the BSC in both developing and developed countries. Based on the literature review, the conceptual framework for this research is established to map the critical elements in the process of the BSC implementation to improve and sustain public sector performance.

Chapter 3 discusses the Indonesian public sector and the bureaucracy reform agenda as context for this study. The chapter also examines the case study organisation, the IMOF, looking at its reform history leading to the adoption and implementation of the BSC. It emphasises the role of leadership as a change enactor and provides a basis for exploring the role of leadership in the successful implementation of the IMOF reform agenda, particularly the BSC.

Chapter 4 presents interview data collected from leaders in the IMOF during the fieldwork in 2010-2011. The chapter provides a brief profile of the IMOF leadership and is followed by the delineation of their perspectives on the following sub-themes: factors contributing to the success of the BSC implementation; the role of leadership in implementing the BSC; factors which challenged for leadership effectiveness; developing strategy and aligning HRM with it

based on the BSC approach; factors which challenged the strategy management and HRM 'fit', the BSC role in the IMOF; factors which challenged the implementation of the BSC; promoting governance in the IMOF performance management system and factors which challenged governance in the IMOF performance management system.

Chapter 5 presents interview data collected from the head of the Strategy Management Office at central level, and from KPI managers during the fieldwork in 2010-2011. The chapter provides a brief profile of the Strategy Management Office and the role of KPI managers in the IMOF bureaucracy reform followed by the delineation of their perspectives on the following sub-themes: factors contributing to the success of the BSC implementation; the role of leadership in implementing the BSC; factors which challenged for leadership effectiveness, developing strategy and aligning with the HRM based on the BSC, factors which challenged the strategy management and HRM 'fit', the BSC's role in the IMOF; factors which challenged the implementation of the BSC; promoting governance in the IMOF; and factors which challenged governance in the IMOF.

Chapter 6 is an analysis of the empirical data presented in Chapter 4 and 5, using the conceptual framework discussed in Chapter 2. The analysis explores four factors in the conceptual framework: leadership effectiveness, strategy management and HRM 'fit', the performance management system and performance governance. The chapter begins by scrutinising the relationship between leadership and performance outcomes. Then it also examines challenges to the performance improvement process and provides analysis of the findings that will be categorised as themes that supported and challenged the four factors in the conceptual framework. The final section of the chapter developed an updated model for improving and sustaining performance outcomes.

Chapter 7 concludes the thesis, referring particularly to the objectives of the study and the research questions using the conceptual framework developed for the study. The chapter defines the contributions of the work by delineating not only the factors that facilitate the implementation of the BSC but also obstacles to its introduction and how to overcome them in a large and complex public sector organisation such as the IMOF. This knowledge has relevance for policy makers and public sector reform in Indonesia.

Chapter 2
The Balanced Scorecard as Performance Improvement Tool

This chapter is concerned with describing the Balanced Scorecard (BSC) and identifying the ways in which it can contribute to performance improvement. The chapter contains a critical review of the literature concerning the BSC especially the relationships between the four main elements in the conceptual framework that link leadership and performance outcomes. The following discussion will show how all these elements define the roles of leaders and how they can provide them with the tools to improve performance outcomes.

The chapter starts with an introduction on the concept of performance, followed by a discussion on the origin of the BSC as a performance management system, what it is supposed to do in an organisation, and the development of the BSC concept to improve performance outcomes. The relevance of the BSC for performance improvement in the public sector is then discussed followed by identification of the factors that contribute to success and failure in the implementation of the BSC in the public sector. Finally, a conceptual framework for improving public sector organisation performance is synthesised out of the discussion as a conclusion to this chapter.

The Concept of Performance

There is no single definition for 'performance'. Performance can be defined as "the final result of all activities" (Gosh & Mukherjee, 2006, p.60). But, it has also been defined as "an effective and efficient use of resources to achieve results" (Berman, 2006, p.5). Bouckaert & Halligan (2008, p.14) also proposed the definition of performance as "a tangible operationalisation of results". Shields (2007) provides a more specific definition noting that performance has individual and organisational dimensions including inputs (competencies), processes (behaviours) and outcomes (results). Thus, according to Shields (2007), performance is a process that frames personal, work group and organisational competencies; personal, work group and organisational behaviour; and personal, group, and organisational results. Despite competing definitions of performance, there are two common features in the performance definitions: process (activities or use of resources) and tangible results. Thus, for

this study, *performance is defined as the use of the organisation's resources to achieve tangible results*.

The concept of performance in the public sector is nevertheless subjective and hence often challenged among its users (Shields, 2007; Bouckaert & Halligan, 2008). The subjectivity depends on who asks about it, how it is defined and what criteria are used to measure it, by whom and for what purpose. Based on human resource management (HRM) theory, performance can be managed as an ongoing communication process, undertaken in partnership between an employee and his/her immediate supervisor (Shields, 2007). Furthermore, Shields (2007) suggested that managing individual performance involves establishing clear expectations and understanding about employee job functions, contribution, ability, compatibility, measurement and discussion about barriers to performing. In the context of organisational performance, the term 'performance management system' (PMS) has been promoted as a system that consists of performance planning, performance appraisal, performance review, and performance evaluation (Furnham, 2004; Bouckaert & Halligan, 2008). The PMS is expected to produce efficiency and effectiveness or as Rao (2008, p.6) strongly stated: a "performance management system can be a great tool if designed comprehensively and implemented in all earnestness".

Implementing PMS in the public sector can bring five major advantages. Those advantages include the great potential of PMS to strengthen performance accountability; to build capacity for managers to improve organisational performance outcomes; to promote business alignment; to manage better individual performance and goal realisation; and to establish performance improvement as an organisational priority rather than focusing on performance appraisal or ratings (Rao, 2008).

Particularly to improve performance, a public sector organisation needs to create a 'performance index' for each employee based on performance and potential that includes 360-degree feedback, either quarterly or semi-annually (from juniors, and internal and external customers besides the boss). One such scheme suggests the following component and the weighted range: individual performance result (20%); individual performance effort (20%); individual performance competencies, culture and values (15%); group performance (15%); internal customer service (15%); development of juniors (15%) (Rao, 2008). However, the use of ratings in performance appraisals is notional and should be used for

discussion and review to improve performance rather than for labeling the performance outcomes or determining the incentives directly (Rao, 2008).

The development of an effective PMS as a tool for performance improvement is still continuing. However, there are at least three problems with regard to performance management in the public sector. Those include implementation problem, particularly inadequate management capacity to implement PMS and difficulties to measures performance outcomes; people resistance, particularly on the impact of PMS and changes to in terms of people's expectations, capacity, evaluation, support, motivation, and the infrastructure for implementing the proposed PMS; and system problems (Gosh & Mukherjee, 2006; Johanson, 2006; Shields, 2007; Rao, 2008).

First, due to the lack of capacity of managers and difficulties in measuring performance outcomes, input-based performance indicators are commonly used to measure performance by government institutions. Ross (2011, p.9) noted that input measures such as "the amount of budget allocated to public sector institutions" or "how much spending on public services" are much used. However, Ross (2011) also noted that the output or outcome-based performance approach such as measuring efficiency, effectiveness and quality are preferable from the citizen's perspective. Second, due to the potential of people resistance (Shields, 2007), PMS should ideally become a tool that demands the total commitment of leaders and all employees in the organisation. In practice, this is very difficult (Gosh & Mukherjee, 2006). Third, problems can be found in the PMS itself. Developing an organisational PMS involves the selection of a PMS framework or tool for public sector organisations. Selecting the PMS tool that fits with the needs of the organisation in the public sector is not easy and the process of selecting and adapting the PMS approach into the organisational practices require resources and organisational capacity building in terms of education and training (Furnham, 2004).

Currently, there are many available PMS frameworks that can be adapted for public sector organisations to promote transparency and leadership accountability based on performance outcomes, and HRM including the Balanced Scorecard (BSC) approach (Kaplan & Norton, 1992; Bolden et al., 2003; Bigliardi, Dormio, & Galati, 2011). However, a PMS as a tool for improving performance now seems to be multidimensional and such models of the PMS are becoming numerous (Rao, 2008). However, some researchers caution against relying on PMS to do everything for an organisation (Murphy & Cleveland, 1991). One type of

multidimensional PMS is the BSC. This is the subject of this thesis and is described in the following sections.

The Origin and the Development of the Balanced Scorecard

One of the many management and leadership tools available as a performance management system for an organisation is the BSC (Kaplan & Norton, 1992). Originally, the BSC was an accounting management methodology that was introduced by Robert Kaplan and David Norton in the 1990s. In the early years (1990-1992), the BSC was used to assist organisations by promoting balanced among four perspectives (financial, non-financial, internal, and external perspectives) to improve traditional performance measurement tools. The traditional performance measurement tools focused mainly on financial matters (Kaplan & Norton, 1996a). In the later stage of its development (1993-1995), the BSC was used to help managers generate comprehensive and coherent organisational strategic plans (Kaplan & Norton, 1996b).

In private business, the term 'scorecard' has become central to the process of measuring and evaluating performance. The term refers to cards used to record the scores for individual and collective performance. It is also used to help plan the target scores that should be reached in various aspects of performance, and to measure progress towards their achievement through 'key performance indicators' (KPIs). BSC proponents see this as facilitating the management of pathways to organisational success of the various business units within the entity (Kaplan & Norton, 1992).

The word 'balanced' in the BSC is meant to emphasise the need for a balanced perspective among the key factors in the organisational performance measurement. The balance is between external measurement as viewed from the customer and other stakeholder perspectives, and internal measurement, viewed from the business process and learning and growth perspectives (Kaplan & Norton, 1996a). Also, there should be a balance between the financial (quantitative) and non-financial (qualitative) measurement of outcomes to generate sustainable performance of the organisation (Kaplan & Norton, 1996a, 1996b). As shown in Figure 2.1, there have been six evolutionary generations of the BSC in its development.

Figure 2.1. The Six Generations of the BSC

6 Gen. of BSC 6 stage closed loop mgt system

5 th Gen. of BSC (2008) Link between Scorecard measures to an organisational strategy map

4 th Gen. of BSC (2006) Enterprise Synergy Scorecard

3 rd Gen. of BSC (2001&2004) Strategy Map & Leadership execution

2 nd Gen. of BSC (1996) Customer, Internal Business & Innovation, Learning & Growth

1 st Gen. of BSC (1992) Customer-Internal Business, Innovation & Learning

Traditional Performance Measures: Financial Perspective Only

Source: Kaplan & Norton 1992, 1996, 2001, 2004, 2008, 2010; Hoque, 2011.

The first generation of the BSC (1992) was designed to strengthen the traditional performance measurement processes that were dominated by the financial perspective (Kaplan & Norton, 1992). Traditional management practices also tended to focus on short-term management standpoints concerning organisational survival (Kaplan & Norton, 1992; Niven, 2005). Thus, the first generation of the BSC added three perspectives concerning longer-term performance outcomes to provide leaders with a balanced report for decision making. There were now four strategy perspectives, as follows:

- **Financial Perspective** – How do our shareholders identify financial success?

- **Customer Perspective** – How do we appear to our customers in achieving our vision?

- **Process Perspective** – What processes must we be exceptional at?

- **Innovation and Learning Perspective** – How will we sustain the ability to change and improve over the long term?

In addition to these four perspectives, the second generation of the BSC (1996) also strengthened the causal link between 'outcome measures' and the 'performance drivers of outcomes' (Kaplan & Norton 1996b; Hoque, 2011). First, the organisational and learning perspective (a new label for innovation and learning) became the driver for change of the internal business process perspective; second, the internal business process perspective became the driver of the customer perspective; and third, the customer perspective became the driver of the financial perspective. Under each perspective, KPIs were developed to provide measures that showed the results of actions taken under each category. The non-financial or operational measures of customer satisfaction, internal process, innovation and improvement activities were also seen as the drivers of future financial performance. With these innovations, the idea of balance now involved both objective elements (lag indicators) and cascade elements (lead indicators) of performance measurement. Furthermore, to strengthen the relationship among interrelated factors to achieve high organisational performance outcomes, the revised BSC involved incentives for individual based on performance improvement (Shields, 2007).

In the third generation (2001-2004), the BSC role was strengthened as an organisational performance management system by providing a better basis for leaders to manage change and execute organisational strategy (Kaplan & Norton, 2001c; 2004; Kaplan, 2005; Rohm, 2008). The BSC provided leaders with the means to obtain a fast and comprehensive view of organisational strategic business performance (Kaplan & Norton, 2004b). The role of leadership was emphasised in the third generation of the BSC through four principles: leading and managing the BSC through mobilising change by empowering executive leadership; translating strategy into actions; motivating employees to make strategy a daily consideration in their jobs; and managing strategy as a continual process (Kaplan & Norton, 2004b; Hoque, 2011). In the third generation of the BSC, Kaplan (2005) included leadership as one aspect of the organisational capital under the learning and growth perspective. In addition, Kaplan

(2005) promoted the BSC as the contemporary and improved manifestation of the 7-S McKinsey model of strategic management in which the BSC could serve as a practical and effective tool for aligning all the organisational variables and processes that lead to successful strategy execution.

In the fourth generation of the BSC, Kaplan and Norton (2006) recognised that corporate performance outcomes were more than just the sum of individual functions, but reflected a combination of functions working together. The new version of the BSC, called the 'Enterprise Scorecard', incorporated four new perspectives: financial synergies, customer synergies, internal process synergies, and learning and growth synergies (Kaplan & Norton, 2006a, 2006b; Hoque, 2011). The overarching concept of corporate synergies highlighted the importance of linking or measuring performance impact across all the functional units of an organisation (Hoque, 2011).

In the fifth generation of the BSC, Kaplan and Norton (2008a, 2008b) emphasised the alignment between scorecard measures and the organisational strategy map (Hoque, 2011). The clearer the link between performance measurements and the strategy map, the better the organisation could develop the organisational performance management system. The success of the BSC depended on whether or not the organisation successfully identified clear and objective non-financial and financial performance measurements, and whether or not those measurements could be linked with rewards and penalties for improving performance (Kaplan & Norton, 2008a, 2008b; Hoque, 2011).

In the sixth generation of the BSC, Kaplan (2010) promoted the six-stage closed-loop performance management system for better alignment between strategic planning and strategy execution (Kaplan, 2010; Hoque, 2011). The six-stage, closed-loop performance management system involves: developing the strategy, translating the strategy, aligning the strategy, planning operations, monitoring and learning, and testing and adapting the strategy (Kaplan, 2010; Hoque, 2011).

For some scholars, the changing versions of the BSC might be a little confusing as there seems to be no single or uniform BSC. However, this evolutionary development has consistently supplied assistance to top executive management for measuring internal and external activities for both short-term and long-term perspectives (Johanson, Skoog, Backlund, & Almqvist, 2006). In addition, six generations of the BSC enabled the inclusion

of various improvements in the design of balanced performance measures and the execution of better performance systems to improve and sustain organisational performance outcomes.

During the process of the BSC's evolution as a private sector tool (see Figure 2.1.), its core concept of improving performance by using a balanced perspective also attracted many organisations in the public sector to adopt the BSC (Kaplan & Norton 2004b, Chan, 2004). With regards to the BSC development and the specific characteristics of the public sector, an adjustments of the BSC design have been suggested by Estis (1998) and Niven (2005) prior to using it in public sector organisations.

The BSC for the Public Sector

This section is concerned with the relevance of the BSC concept for improving government performance in developing countries. There are two main conceptual concerns that need to be addressed before leaders can use the BSC for improving public sector performance. These concerns are the BSC design and the BSC process or stages of implementation.

In regard to the first conceptual concern, the BSC design, three main issues need to be addressed before the BSC in the public sector is implemented. These are the contextual issue, time-lag issue and strategic issue. First, implementing the BSC in the public sector faces the contextual issue, given that the original design of the BSC was intended for large private sector firms which ultimately aimed for maximising the organisations' financial situation. The characteristics of mission or regulatory-based public sector organisations with multiple stakeholders, and of small private sector enterprises, were not taken into account in the BSC (Elefalk, 2001; Johanson et al., 2006). Without adjustments in the initial design, implementing the BSC as a model for public sector performance improvement might have created dysfunctionality in organisations' central planning systems, leading to failure to promote or stimulate learning (Elefalk, 2001; Johanson et al., 2006).

The second issue, that of BSC's time lag (hysteresis) in measuring the key performance indicators, may emerge during the scorecard mapping process, if potential time-scale variations of performance indicators in the different organisational areas had not been considered (Nørreklit, 2000; Johanson et al., 2006; Hoque, 2011). There can be time lags in data collection and analysis, leading to flaws in the identification of cause-effect relationship among the four perspectives in the strategy map. Thus, without taking this hysteresis into

account, the results from BSC could be misleading (Johanson et al., 2006). To address this issue, researchers suggested measurement on a regular and systematic basis to account for the time gaps between different strategic objective and activities (Johanson et al., 2006; Hoque, 2011).

Third, the strategic issue involves whether or not the leadership wants to use the BSC for improving all organisational performance outcomes. The motivations for bringing the BSC into the public sector should be clearly established by the leadership. For instance, the BSC can be the HRM tool just for individual performance management or value creation, or it could also be the strategic tool to achieve missions, visions or strategies (Mauritsen et al., 2004). Alternatively the BSC might be used as a tool to improve performance in an organisation's service delivery (Estis, 1998), as well as to promote quality management (Guthrie et al., 2004). In order to achieve any of these objectives, it is necessary to get the whole organisation's commitment to the BSC (Johanson et al., 2006).

With regard to the BSC process, the second conceptual concern for the public sector, there are particular considerations at each stage of the BSC implementation (Estis, 1998; Kaplan, 1999). The first stage of the BSC implementation is the introduction stage. At this stage, there must be clearly defined leadership commitment, approval and approach for the implementation before bringing the BSC into a public sector organisation. Commitment from the executive leadership is essential in determining the strategic coverage of the implementation, identifying the desired outcomes from the BSC, and ensuring the alignment of organisational direction, objectives, performance measurements and targets (Kaplan, 1999; Chan, 2004). Top leadership approval is vital for securing organisational support for the resources needed for the BSC such as funds, staff, time and management support. Moreover, clear unambiguous leadership direction should result in encouraging employees to commit to the BSC, especially the team directly involved in its development (Kaplan, 1999; Shields, 2007). Also, while the private sector's major objective is to secure higher financial outcomes, public sector organisations have mandates specified in laws and regulations relating to the public good. Hence, in managing performance, even though financial measures are important because public sector leaders must achieve goals within the allocated budgets, the financial measures rarely become the ultimate perspective for public sector BSCs (Estis, 1998; Kaplan, 1999).

Another leadership task at the first stage of BSC implementation in public sector organisation is to determine clearly the approach for the implementation. Should it be a top-down or bottom-up, partial or comprehensive? Under the top-down approach, the executive leadership team must communicate strong commitment and approval for the BSC implementation. This is essential particularly when the public sector organisation needs to bring BSC in to replace the existing performance management tool that is mandated for all public sector organisations. Appropriate time and resources should be allocated for the process of transition to the BSC as a new performance management approach. The bottom-up approach to implementing the BSC is based on experimental learning processes (Johanson et al., 2006). This method involves measures being developed by line managers and organisational units. Thus BSC development can be independent of top executive strategic goals of the public sector organisation although the process should lead to some integration with the whole of public sector organisation (Johanson et al., 2006).

The second stage is the strategy development stage, where the BSC can assist the public sector organisation to formulate the organisation's vision, mission and objectives (Kaplan & Norton, 2001c; Chan, 2004). Formulating an organisation's vision and objectives involves refining or redefining the organisation's strategy formulation, strategic planning, programming and budgeting. It is a more complex process in public sector organisations than in private firms due to the nature of the political decision-making process, difficulties in making long-term commitments, and the size of bureaucracy and its leadership structures. First, public sector organisations are also political organisations supporting governments to achieve their desired policy outcomes (Johanson et al., 2006). Policies are the outputs of political activities. Because there are often different political preferences in addressing some issues, formulating a policy and proposing a budget for the policy activities involve a longer and more complex process compared to private sector organisations. Second, policies often have fairly short time horizons because of elections, government changes, shifting priorities and the need to react to stakeholder demands (Turner & Hulme, 1997). Thus, key features of good strategy management such as long-term objectives and coherence are sometimes sacrificed (Almqvist & Hogberg, 2003). Third, with regard to the size of the organisation and mechanistic bureaucratic culture, public sector organisations have tended to possess higher levels of rigidity in terms of size and staff than private sector organisations (Johanson et al., 2006).

Because of these differences, Estis (1998) proposed the modification of the four perspectives of the BSC for the public sector. For instance, as shown in Figure 2.2, the example of the modified BSC strategy map of a local government health authority shows the cause-effect relationship between strategy and key initiatives under the five BSC perspectives: mission, community, internal processes, financial resources and learning and growth (Bocci, 2005).

Figure 2.2. Example of a Strategy Map for Public Sector: Health Care Authority
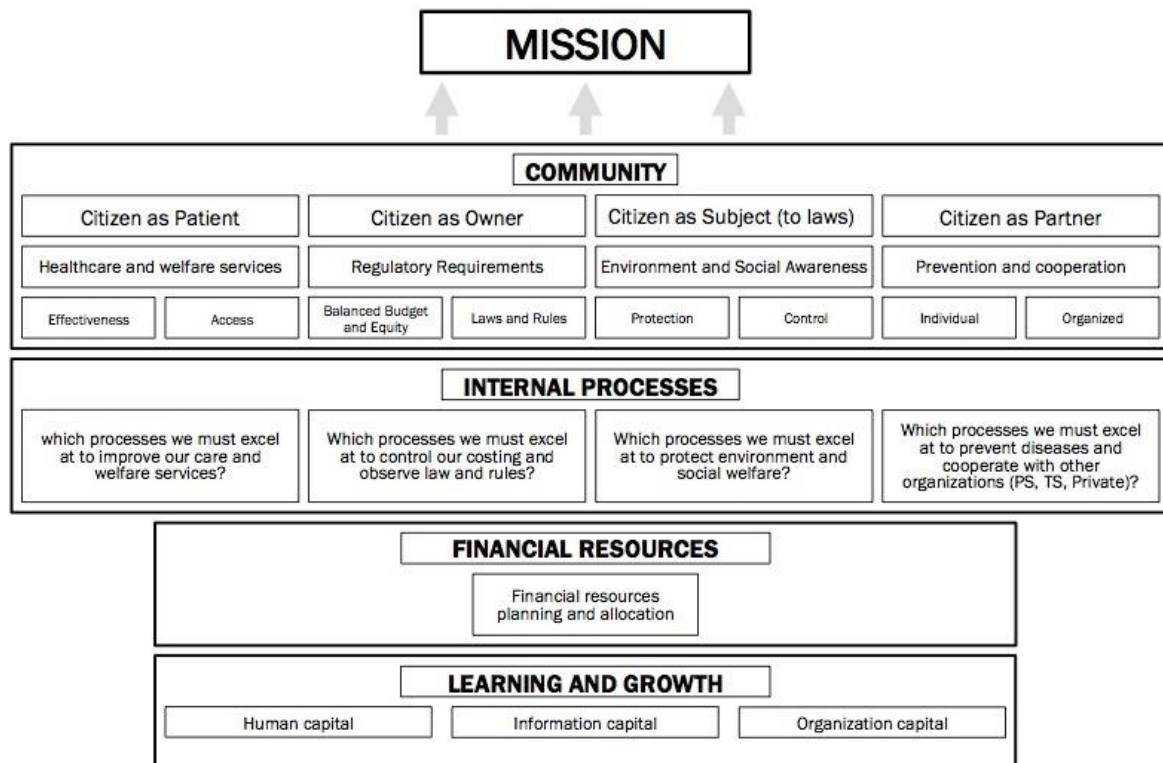
Source: Bocci, 2005.

The adapted strategy map addresses the unique public sector organisation mission as the ultimate outcomes perspective. The adapted strategy map enables public sector organisation to translate and cascade mission, vision and strategies down to the lower levels of the organisation structure in the form of key performance measures that are categorised into four perspectives: mission, community, internal process, financial resources and learning and growth. However, Estis (1998) proposed the omission of the financial resources perspective and proposed four adapted BSC's perspectives for the public sector: mission, customer, operational efficiency and organisational learning (Estis, 1998). According to Estis (1998) while the BSC approach offers a useful methodology for measuring performances of public agencies, it needs to be different than that developed for the private sector.

One of the most common reasons that attracts public sector organisations to develop a strategy map based on the adapted BSC perspectives for the public sector is that the strategy map can help to develop strategic objectives and align the strategies of organisational units to organisational planning and budgeting (Graetz et al., 2006; Downing, 2000). This reinforces the view that the BSC can serve as a public sector strategic management tool to sustain performance excellence (Hoque & Adams, 2011; Kaplan & Norton 2004a, 2009). Furthermore, with advances in information technology (IT) as an enabler, the BSC approach can strengthen the processes of a strategic performance management system particularly in communication.

The third stage of BSC implementation in the public sector is about developing it as an approach for the organisational performance management system (Kaplan & Norton, 2001a, 2001b, 2001c; Bigliardi, Dormio, & Galati, 2011). The use of the BSC for the public sector PMS means that the performance information is integrated into and coherent with the strategy management (Bouckaert & Halligan, 2008; Bigliardi, Dormio, & Galati, 2011). The strategy map helps to translate strategies into key performance indicators and targets for organisational actions and provides a system to communicate and align departmental initiatives to increase the quality of feedback, learning and innovation (Kaplan & Norton, 1999; Bocci, 2005; Johanson et al., 2006).

As a tool for the performance management system, the BSC guides the organisation to measure performance indicators to determine progress towards achieving the strategic goals that have been identified under the four BSC perspectives for public sector: mission, customers, internal business process, and learning and growth. At the third stage of the implementation, the strategy map is translated into key performance indicators and cascaded from executive level down to the lower levels of the organisation. Indicators of success for this implementation stage are the clear determination of KPIs and the selection of officers who will be involved in the BSC design, and will compile the reports for further feedback and evaluation.

At this stage, the involvement and participation of all leaders at all levels is necessary (Estis, 1998; Kaplan & Norton, 1999; Niven, 2005). However, with regard to the public sector organisation characteristic, developing a comprehensive strategy to improve performance of organisation in all might necessitate middle leaders sacrificing some budget to achieve organisational success. Public sector organisations tend to have an establish budgeting

allocation process that focuses on short-term budget priorities or annual inputs rather than outputs or outcomes which tend to require a longer time to measure success (Ross, 2011).

The core activities in the strategy implementation stage are cascading the strategy map and strategic objectives determined in the previous stage, from the highest level of the organisation to the lower units and to identify and measure the lower units' and individual KPIs. An alignment dilemma might emerge when the public sector BSC strategy map is not open for individual participation or accommodating the lower-level priorities (Johanson et al., 2006). As such, the BSC could fail to capture the feelings, values, beliefs, relationships, fears and dreams of the people who are involved in implementation (Johanson et al., 2006).Without considering those aspects, the BSC indicators can be restrictive or may fail to capture lower and middle level priorities or strategic objectives as drivers or key processes for organisational performance output in the public sector (Johanson et al., 2006).

To promote strategy alignment and to sustain an organisation's key performance indicators, good communication is a key to improving the KPIs prior to evaluating the performance data recording and reporting in the next stage of implementation (Johanson et al., 2006; Sharma & Gadenne, 2011). The BSC reporting can also become a medium for strategy dialogue between the political and administrative levels about priorities. By contrast, some researchers note that the BSC can increase the gap between these actors (Johanson et al., 2006). However, good communication between stakeholders in BSC reporting creates the potential to align the various organisational levels by developing a common understanding of the visions, goals and perspectives (Johanson & Martensson, 2006). Before moving to the next stage, it is important to design the information system and technology for performance measurement and particularly to support the strategy monitoring stage.

The fourth stage of the BSC implementation is the strategy monitoring and evaluation stage where the results of performance measurement in four perspectives are compared with the targets set during the strategic planning and development stage (Kaplan & Norton, 2001a, 2001b, 2001c; Chan, 2004). In this stage, three main concerns should be taken into account to improve government performance. These include considering the range of the stakeholders, aiming for more than just budget disbursement and promoting accountabilities. First, according to Estis (1998), due to the broader range of public sector stakeholders than in the private sector, to monitor strategy achievement and evaluation under the BSC in government institutions is more difficult. Some adjustments are thus required in the BSC strategy map

design and also in developing public participation in the BSC reporting effectiveness to improve and sustain performance outcomes. In addition, implementing BSC to improve public sector performance also requires alignment between organisational strategy and personnel performance. This can take time; for instance, in the Australian Centrelink (2009) it took more than four years to link the individual performance agreements with business planning under the BSC (Centrelink, 2009). Feedback and coaching at the individual level were introduced to maintain the alignment of individual key performance indicators and organisation strategy in a changing environment. Furthermore, more effort was put into motivating employees, their assessment, capacity-building and achievement recognition to encourage performance excellence (Halligan, 2008; Centrelink, 2009).

The second concern about aiming for more than just budget disbursement is that the BSC reporting for public sector organisation should be capable of reflecting the public sector organisations' strategy focus to be more than just to achieve financial outcomes in terms of meeting the budget. There are many factors contributing to improving public sector performance outcomes. For instance, Boyle (2009) has examined the importance of a framework for performance management and reporting requirements in four countries: Australia, Canada, Ireland and United States. Such frameworks provide guidelines for developing indicators and monitoring them, and for the implementation of strategic performance management (Boyle, 2009).

The third concern is about public sector organisations' accountability. Accountability is important for improving performance. One way of doing this is by doing the performance appraisal for individual and organisational level. For example, the Australian Treasury Performance Management System Model (ADT, 2009) was inspired by an introduction of the BSC in the early stages that broadened to meet the need for the career development and performance appraisal process involving a meeting between the employee and their immediate manager to discuss performance over the appraisal period. The frequency of appraisals can be two performance appraisal cycles for non-SES (Senior Executive Service) employee each year and annual performance appraisal for SES. Furthermore, based on findings on the current practice in the Australian Department of Treasury as well as in the Australian Department of Finance and Deregulation, the 360 degrees evaluation for SES have been done to identify development opportunities and to provide an effective task assignment and review (ADT [Australian Department of Treasury], 2009; DOFAD [Australian

Department of Finance and Deregulation], 2009). The ongoing review performance and feedback, coaching and identifying personnel development opportunities in the appraisal meeting are key activities contributing to improved work performance (ADT, 2009; DOFAD, 2009).

For developing the whole-of-government accountability for performance outcomes, the Singapore government has used the BSC as a tool and part of the Singapore's 'PS21' (Public Service for the 21st Century) integrated performance strategy (SMOF [Singaporean Ministry of Finance], 2007). In addition, the SMOF role has been central in managing annual meeting with each ministry to improve the Singaporean government performance and promote better accountability by collaborating and consolidating the whole of government balanced scorecard since 2005 (SMOF, 2007). Furthermore, the whole of Singaporean government BSC had been reviewed every year to adapt with the continuous change and stakeholders' expectation for the performance of the government institutions so that the continuous performance improvement can be met (SMOF, 2007).

In summary, implementing the BSC in the public sector requires modification and adaptation of designs made for the private sector. Intervention and commitment from public sector leaders are needed in four stages of the BSC implementation: introduction stage, strategy development stage, strategy implementation (performance management) stage, and strategy monitoring and evaluation stage. These stages can be referred to also as the BSC methodology for improving performance outcomes. To explore the leadership-performance relationship, the next section examines leadership as a factor in the BSC implementation.

Leadership Theory and Performance Improvement

This section is concerned with the relevance of leadership theory for improving government performance in developing countries. The discussion covers the concept of leadership, comparing relevant leadership theories and their major characteristics and defining the vital strategic leadership roles in the BSC process.

The concept of leadership

Leadership is a contested concept and there are many different and overlapping definitions and approaches to it. For example, Northouse (2003, p.3) regards leadership as "a process

whereby an individual influences a group of individuals to achieve a common goal". Jago (1982) called people who carry out that process as leaders. Harton and Farnham (2007, p.437) defined leadership as a "process of sense-making and direction-giving within a group" and a leader can only be understood through "examining relationships within the group/followers". Daft and Pirola-Merlo (2009; p.4) defined leadership is "an influence relationship among leaders and followers who intend real changes and outcomes that reflect their shared purposes". In the attempt to summarise the concept of leadership, Grint (2005) proposed that the focus of approaches to leadership can be about person, position, process and results:

- Leadership is about person: who is driving people and system?
- Leadership is about position: where should people get direction?
- Leadership is about process: how to get things done?
- Leadership is about results: what is achieved by the organisation?

By combining those insights, leadership can be defined as how a person, in his/her position, possessing certain characteristics, provides influence in the process of achieving organisational results.

Over the years there have been many approaches to the study of leadership. These include six prominent leadership theories from the 1900s until 2005 (Bass & Stogdill, 1990; Bass, 1999; Van Wart, 2003; Ireland & Hitt, 2005; Jing & Avery, 2005; Avolio, 2007; Daft & Pirola-Merlo, 2009). Before the 1900s the 'great man' leadership theory emerged in the era influenced by notions of social change brought about by uniquely talented and insightful individuals such as Napoleon and George Washington (Bass & Stogdill, 1990; Bass, 1999). The dominant perception was that the course of history had been determined by great men who affected substantial changes in society. From 1900 until 1948, the trait leadership theory was popular during the era influenced by scientific methodologies in general (especially industrial measurement) and scientific management in particular. Leadership was defined in terms of individuals possessing certain traits that distinguished them from the rest of society (Bass & Stogdill 1990; Tannebaum & Schmidt, 1958). This combination of traits enabled them to be successful leaders.

In the 1980s, the contingency leadership theory emerged and made use of some existing theories and concepts including human relation theories involving motivation and small

group concepts (Bass, 1990; Vroom & Jago, 1988; Van Wart, 2003; Graen & Uhl-Bien, 1995; Elliott, 2011). To be an effective leader it was necessary to have a leadership style which enabled the person to deal with the situational variables in an organisation to improve individual and organisational performance. Particular styles fitted particular situations.

Transformational leadership emerged as a major paradigm after 1978 in the era influenced by the decline of American dominance in business, finance and science and the need to re-energise various industries which had slipped into complacency (Burns, 1978; Bass, 1999; Graetz et al., 2006; Jing & Avery, 2008). Organisations during this era looked for leaders with qualities for bringing about changes in organisational structures, processes, and culture that led to improved business performance. Transformational leadership was promoted in a variety of forms by a large number of authors. It was sometimes associated with charisma, but always with clear vision of the desirable and achievable organisational future. The transformational leader was also required to inspire followers to improve organisational performance (Burns, 1978; Bass, 1999; Graetz et al., 2006; Jing & Avery, 2008).

In parallel with the emergence of transformational leadership theory, was the appearance of transactional leadership. It was an alternate paradigm that supported the idea of improving organisational performance by recognising and acting upon the needs and expectations of subordinates (Burns, 1978; Jing & Avery, 2008). Transactional leaders provide incentives to followers in exchange for particular levels of performance (Bass et al., 2003; Jing & Avery, 2008). Under the transactional school, "followers receive rewards for job performance and leaders benefit from the completion of task" (Daft & Pirola-Merlo, 2009, pp. 150). Transactional leaders could also employ negative sanctions or exclusionary tactics to uncooperative followers

More recently, in 2001, the notion of strategic leadership emerged (Maccoby, 2001; Ireland & Hitt, 2005; Rowe & Nejad, 2009). Strategic leaders need to have synergistic transformational and transactional leadership qualities in order to change organisational structures, processes, and culture to cope with the 21st century global challenges (Behn, 2003; Ireland & Hitt, 2005; Rowe & Nejad, 2009).

Despite the emergence of leadership substitutes such as closely affiliated teams, professional norms and structures including high-technology environments, which provide guidance and incentives for organisational performance without strong leadership figures (Dubrin, Dalglish

& Miller, 2008), there has been growing evidence and belief that leadership is a major determinant of sustainable organisational performance in the public sector (Van Wart, 2003, Jing & Avery, 2008). However, there are limited studies done to establish what specific leadership styles or paradigms are best suited to the public sector (Jing & Avery, 2008). The leadership theories that have attracted the greatest numbers of followers in recent years are are transformational leadership, transactional leadership and strategic leadership. Theories in these traditions have dominated both academic discourse and practice and have been absorbed into the BSC as the major approaches to leadership – and according to the BSC, leadership is a key variable in organisational success.

Comparing three prominent leadership theories

Table 2.1. provides detailed information on four dimensions of leadership style that differentiate the three theories of leadership analysed in this thesis: transformational, transactional and strategic leadership. The four styles are personal mastery (personal qualities, orientation and style), organisational mastery (process and structure, agility and followership), performance mastery (performance and innovation), and social mastery (ethics and value driven and governance).

The concept of leadership masteries (personal, organisational, performance and social) has been adopted because findings from previous studies show that there is no single leadership paradigm that can be the most effective for each organisation every time (Jing & Avery, 2008). Breaking down each theory into masteries give a more informed picture of which combination of styles will be appropriate in particular situations. Personal mastery is "the discipline of personal growth and learning and of mastering yourself; it embodies personal visions, facing reality and holding creative tension" (Senge, 1990; Daft & Pirola-Merlo, 2009, p.527). Leadership personal mastery is comprised of leadership personal qualities and roles that define the leadership style. These characteristics contribute to the creation of personal leadership effectiveness through accepting both the leader's dream and the organisational reality and closing the gap between them by moving towards the dream (Daft & Pirola-Merlo, 2009).

The strategic leader has a combination of both visionary and managerial types of leadership. As a person, the strategic leader inspires people with achievable big dreams and visions for the future and exhibits both leadership and managerial capabilities. He/she marshalls people

to address short-term and long-term opportunities for the organisation and is capable of aligning individual expectations to the ultimate vision.

Table 2.1. Comparative Analysis of the Selected Leadership Concepts

No.	Dimensions of Leadership Styles	Transformational Leader	Transactional Leader	Strategic Leader
1	Personal Mastery			
a	Personal Qualities	Those with a big dream and vision of the future	Being good manager as exhibited by most of organisation's executives	Combination of both visionary and managerial type leader
b	Orientation	Focus on ideas, create fresh approaches to longstanding problems.	Focus on goals and interests based on transactions with followers	Marshalling people for the attainment of short-term and long-term goals
c	Leadership style	Proactive, creative, innovative and idea generators; influence the thinking process of the organisation and its people	Mechanistic, relates to people according to roles, structure and decision-making process	Make vision work with alignment of strategy throughout organisation
2	Organisational Mastery			
a	Process and Structure	Not constrained by the present structure, systems, processes or people	Rule-bound, focus on structure and existing business processes	In the paradox of leading and managing: nurturing mix of transactional and transformational leadership qualities
b	Agility	Less orderliness, find breakthrough, connect with people and idea intuitively	Systematic and orderliness: difficult to cope with unstructured situations.	Flexible, adaptive to the shocking change and challenges
c	Followership: succession	Team work enhancement: planning leadership succession	Mechanistic bureaucratic: lack of succession program	Embraces leadership succession
d	Followership: staff empowerment	Promote staff empowerment: require skilled and knowledgeable workers to realise the vision:	Require staff skilled in specific tasks; staff less empowered.	Need professional and knowledge workers in dynamic, chaotic situations
3	Performance Mastery			
a	Performance	Well equipped to propel growth	Good in managing an organisation	Maintaining competitive advantage and sustaining performance excellence
b	Innovation	Good at initiating new ideas and innovation	Less suited to facilitate innovations and changes	Innovation becoming part of the culture supported by continuous leadership capacity building in the organisation
4	Social Mastery			
a	Ethical & Values Driven	Employing ethical leadership charisma and promoting shared values to achieve vision and mission	Rewards, agreements and expectations negotiated with the leaders	Values and vision shared by all members of the organisation
b.	Promote governance	Focus on stakeholders' perspectives	Maintaining formal relationships with stakeholders	Promote strategic alliance with stakeholders and community

Source: (Maccoby, 2001; Avery et al., 2004;Ireland & Hitt 2005; Jing & Avery 2008; Daft & Pirola-Merlo 2009)

Leadership organisational mastery includes the qualities and roles of leadership with regard to process and structure, agility, and followership including leadership succession and staff empowerment (Daft & Pirola-Merlo, 2009; Jing & Avery, 2008; Ireland & Hitt, 2005; Maccoby, 2001; Avery, Bell, Hilb, & Witte, 2004). The strategic leadership style comprises a wider range of organisational mastery qualities than the other two prominent leadership

styles: transformational and transactional (see Table 2.1.). A strategic leader nurtures a mix of transactional and transformational leadership qualities and is capable of initiating a breakthrough to a vision for a rule-bound or process-based organisation. In terms of followership, strategic leaders embrace leadership succession and nurture leadership qualities among all the members of organisation, making sure that shared vision and values drive professional actions even in chaotic situations. However, if the followers are not ready in terms of competencies, transactional leadership styles can be applied by the strategic leader (Bass, 1990; Jing & Avery, 2008).

Leadership performance mastery refers to the leadership qualities and roles in the process of developing competitive advantage and sustainable high performance culture through innovation (see Table 2.1). Strategic and transformational leaders demonstrate performance mastery that is adaptable to the changes and challenges in the environment and they are equipped to achieve performance excellence from their innovations (Maccoby, 2001; Avery et al., 2004; Ireland & Hitt, 2005; Jing & Avery, 2008; Daft & Pirola-Merlo, 2009). Transactional leaders are not so oriented to innovation but not averse to it and can make exchanges with followers to achieve desired organisational change.

Leadership social mastery deals with how leaders promote governance principles in the organisation and strategic alliance with stakeholders outside the organisation. Strategic leaders aim to develop shared culture and commitment to staff and organisation (Maccoby, 2001; Avery, Bell, Hilb, & Witte, 2004; Ireland & Hitt 2005; Jing & Avery 2008; Daft & Pirola-Merlo 2009).

From the discussion above and detailed annotations in Table 2.2, it is clear that the strategic leader demonstrates the behaviours that most fit with the requirements of the BSC as set out earlier in this chapter. Maccoby (2001) summarised the leadership qualities of the strategic leaders as follows: foresight (sensing and shaping the future), visioning (combining foresight and system thinking and make it work); systems thinking (integrate elements and promote synergy in the organisation), motivating (stimulating proactive actions among members) and partnering (create strategic alliance with stakeholder). Furthermore, Daft & Pirola-Merlo (2009) saw strategic leaders also as social architects who shape social culture and values and create adaptive flexible organisations.

In summary, strategic leadership theory exemplifies a combination of desirable masteries that fall under two other prominent leadership paradigms known as transactional leadership and transformational leadership (Ireland & Hitt, 2005; Jing & Avery, 2008). This strategic leadership theory can be applied to the stages of the BSC implementation for improving public sector organisations' performance outcomes.

Defining the strategic leadership roles in the BSC process

As previously demonstrated, strategic leadership is of the utmost importance for the design and implementation of the BSC. There are several critical leadership tasks that must be successfully performed for the BSC to make a significant contribution towards improving organisational performance. Each of these is discussed in detail this section.

Determining clear organisational vision

The first important role of the strategic leader is to determine clearly the organisation's vision and strategic direction (Hamel & Prahalad, 1989; Ireland & Hitt, 2005). Only with clear commitment and direction from the leaders in terms of vision and mission will the organisation's members have something to aim at and later can measure their own and the organisations' performance. Thompson and Strickland (2003) in Carstens and Barnes (2006) claimed that managers cannot function as effective leaders without a clear vision, especially as this will guide the course of action of management and organisation members.

By determining a clear organisational vision, the organisation can anticipate and envision the future opportunities and challenges, maintain flexibility in the midst of internal and external changes, manage resources effectively and face greater pressures from broad stakeholders.

Developing human capital and organisational culture 'fit'

A second vital strategic leadership role for any change initiative is to develop human capital and reshape the current organisational culture to 'fit' with the organisational strategy (Ireland & Hitt, 2005; Shields, 2007). Human capital relates to the knowledge and skills of staff in the organisation (Shields, 2007).

The strategic leadership role to develop human capital and organisational culture 'fit' is in line with the BSC which puts human capital and culture in the learning and growth

perspective as enablers to improve organisational performance outcomes (Kaplan & Norton, 2004a, 2005). Under the BSC framework, a strategic leader can develop a strategy map to align HRM practices with business strategy by cascading the performance management system from the top level to the individual level in order to achieve the desired organisational performance outcomes (Hughes, 2003; Kaplan & Norton, 2004a; Rao, 2008; Shields, 2007). Furthermore, a clear strategy map is needed to guide the leader on how to deal with relevant variables and determine what factors should be considered in order to improve organisational performance rather than just providing a list of effective leadership qualities (Bolden et al., 2003).

Establishing balanced organisational performance controls

Strategic leaders in the public sector under the New Public Management paradigm shifted their principal concern from process to results and established balanced between strategy and financial controls in the organisation to promote performance excellence, build credibility and support strategic change (Hood, 1995; Ireland & Hitt, 2005; Rose & Lawton, 1999). The term 'performance management system' (PMS) was adopted to describe the control and motivation mechanisms for leading public sector organisations to achieve high performance (Bouckaert & Halligan, 2008).

Despite potential the attraction of PMS as a leadership tool to improve public sector performance, Rao (2008) identified five problems including: inadequate managerial focus; insufficient managerial skills to improve performance; narrowly defined ownership; a disconnect from strategy or inadequate linkage to business drivers; and failure to execute. However, these problems have not dimmed the enthusiasm for the development of PMS tools. These tools include the multidimensional performance management systems such as the European Foundation for Quality Management (EFQM) (McFarlane, 2001), Business Excellence Model (Michalska, 2008), the Malcolm Baldrige National Awards Framework (MBNA, 2009) and the BSC (Kaplan & Norton, 1996, 2001, 2004a, 2004b; Rhodes, Walsh & Lok, 2008). Implementing these approaches requires significant input by leadership in order to enable organisations to better serve the organisation's stakeholders by setting high standards for financial and non-financial performance indicators (Brignall & Modell, 2000).

To enhance leadership accountability at all levels in the public sector, the BSC can become not only a measurement system but also a strategic performance management tool to achieve

competitive advantage and sustain performance excellence (Kraines, 2002; Kaplan & Norton, 2004a; Kaplan, 2009). In the hands of strategic leaders, the BSC is a set of performance measures that gives them a fast and comprehensive view of strategic business performance (Kaplan & Norton, 1996, 2001). It includes financial measures that tell the results of actions already taken and also non-financial or operational measures such as customer satisfaction, internal process, and the organisation's innovation and improvement activities.

Promoting performance governance and create value-based outcomes

A governance system may be defined as "a process whereby societies or organisations make their important decisions, determine whom they involve in the process and how they render account" (Graham et al., 2003, p.1). The governance system requires leadership accountability and performance, two of five principles of good governance (Graham et al., 2003). This philosophy encourages leaders in the public sector to emphasise customer focus strategies; adopt private sector performance management tools; design better budgeting; and promotes clear individual, departmental and organisational accountability (Behn, 2006). Additionally, performance governance is important for the achievement of externally imposed performance targets (Halligan, 2008; Propper & Wilson, 2003).

The concept of leadership performance governance is in line with the third and sixth generation of the BSC (Kaplan & Norton, 2004b), particularly in the leadership roles in testing and adapting strategy sustainably in the BSC implementation process (Hoque, 2011; Kaplan & Norton, 2012). This process can be done in two ways: involving broader stakeholder participation such as parliaments or citizens or promoting the creation of public value principles to improve public sector performance outcomes.

In reforming the public sector organisation, with regard to the broader stakeholder participation, NPM has several limitations for delivering better outcomes (Evans, 2009; Stoker, 2006). NPM has too much focus on customers and markets rather than on citizens. However, it still promotes the dominance of public servant roles, and takes inadequate consideration of politics and deliberative public policy making (Evans, 2009). Due to these shortcomings, the new concept of creating public value emerged and has been promoted as a preferred public sector reform agenda (Evans 2009, Stoker 2006).

In defining public value principles to improve performance outcomes, the emphasis has been on leadership accountability and performance (Graham et al., 2003). Leadership accountability deals with how leaders in government, the private sector and civil society are accountable and transparent to the public and specific stakeholders (Graham et al., 2003; UNDP, 1999). Performance is about promoting institutions' responsiveness, effectiveness and efficiency in making the best use of resources to produce desired results and to serve all stakeholders (Graham et al., 2003; UNDP, 1999). Implementing good governance principles by public sector leaders should lead to improved efficiency and capacity (Chou, 2008). There are however, obstacles to the effective application of good governance in public sector organisation in some countries. These include: leadership resistance, lack of political will, resource constraints and complexity problems (Ding, 2005; Chou, 2008; Yamamoto, 2008; Evans, 2009).

Conceptual Framework for the Study

Drawing from the literature review on the concept of performance, the BSC and strategic leadership, the researcher developed a framework to guide data collection and analysis. Table 2.2. shows a device to establish the conceptual framework for this study. This analytical and classificatory device has four components. These are Leadership Mastery, Strategic Leadership Characteristic, The Leadership Roles in the BSC Implementation Stages and Emerging Concepts on Leadership and Performance Relationship. The emerging concepts can be correlated with each other to produce a conceptual framework that frame the study of the relationship between leadership and performance outcomes. These are Leadership Effectiveness, Strategy and HRM 'Fit', Performance Management System, and Performance Governance (Kaplan & Norton, 1996; 2004a; Shields, 2007; Sutiyono, 2007; Jing & Avery, 2008; Bouckaert & Halligan, 2008).

Table 2.2. Developing the Conceptual Framework

No.	Leadership Mastery		Strategic Leadership Characteristic	The Leadership Roles in the BSC Implementation Stages	Emerging Concepts on Leadership and Performance Relationship
1	**Personal Mastery**				
a		Personal Qualities	Combination of both visionary and managerial type leader	The First Stage (Top Leadership Commitment and Approval): Determine the Organisation's Vision	Leadership Effectiveness
b		Orientation	Marshalling people for attainment of short term and long-term goals		
c		Leadership style	Make vision work with alignment of strategy throughout organisation		
2	**Organisational Mastery**				
a		Process and Structure	In the paradox of leading and managing: nurturing mix of transactional and transformational leadership qualities	The Second Stage: (The Strategy Planning): Develop Human Capital and Organisational Culture.	Strategy and HRM 'fit'
b		Agility	Flexible, adaptive to discontinuous change and challenges		
c		Followership: succession	Embraces leadership succession		
d		Followership: staff's empowerment	Need professional and knowledge workers in dynamic, chaotic situations		
3	**Performance Mastery**				
a		Performance	Maintaining competitive advantage and sustaining performance excellence	Third Stage (Strategy Implementation): Establish Balanced Organisational Controls	Performance Management System
b		Innovation	Innovation becoming part of the culture supported by continuous leadership capacity building in the organisation		
4	**Social Mastery**				
a		Ethical and Values Driven	Values and vision shared by all members of the organisation	Fourth Stage (Strategy Monitoring and Evaluation): Promote Ethical Practices and Create Better Organisational Values-Based Outcomes	Performance Governance
b.		Promote governance	Promote strategic alliance with stakeholders and community		

Source: Maccoby, 2001; Van Wart 2003; Avery, Bell, Hilb, & Witte, 2004; Kaplan and Norton 2004; Ireland & Hitt 2005; Graetz et al. 2006; Jing & Avery 2008; Bouckaert & Halligan 2008; Daft & Pirola-Merlo 2009.

Also shown in Figure 2.3., these four concepts can be developed into a conceptual framework that postulates the relationship between leadership in public sector organisation and performance outcomes. These four concepts are briefly discussed in the section below.

Leadership effectiveness

Leadership effectiveness is the first element in the framework. This concept emerged in the process of relating the leadership role with the first stage of implementing BSC in the public sector. Leadership effectiveness deals with developing personal mastery for the people in the organisation by leading and managing organisational performance effectively. Finding an effective leader for every organisation at the right time is not always easy. A leader in the organisation is the one who has leadership masteries and is willing to take responsibility for leading any organisational change initiatives and achieving performance excellence (Michalska, 2008). Leadership effectiveness is the ultimate aim of the strategic leader (Hamel & Prahalad, 1989; Van Wart, 2003; Ireland & Hitt, 2005). Strategic leadership involves the process of determining clearly the organisation's vision, developing strategic direction of the organisation and creating the conditions to achieve the strategic goals (Hamel & Prahalad, 1989; Ireland & Hitt, 2005). To promote clear leadership-performance outcomes relationship in the public sector, leaders with the full set of characteristics for personal, organisational,

performance and social mastery are needed (Van Wart 2003; Ireland & Hitt 2005; Graetz et al., 2006; see Table 2.2.).

Strategy and HRM 'fit'

The strategy and HRM 'fit' emerged as the second element in the framework. This concept represents the link between the leadership organisational mastery and the leadership role of developing human capital and organisational culture in the second stage of the BSC implementation. This concept involves the process of aligning the business strategy with the human resources strategy and practices (Shields, 2007). In a study of the development of a basic model for the 'best fit' strategy alignment, Shields (2007) suggested that organisations develop a remuneration system which will correlate with business strategy, the organisational structure, and the shaping of the organisational culture. By including strategy and HRM 'fit' as part of the conceptual framework, leaders at all levels in the organisation become aware of the importance of setting organisational priorities and exploring competing strategies to achieve vision and mission in a context of temporal and structural constraints (Oakland & Tanner 2008). In addition, attention by leadership to the development of strategic objectives and high level KPIs is needed for the second stage of the BSC implementation i.e. the strategy planning to achieve high public value performance outcomes (Oakland & Tanner 2008; Kaplan and Norton, 2004b).

Performance management system

The performance management system emerged as the third element in the framework. Employing the BSC requires leadership performance mastery to establish balanced organisational control and covers the use of the BSC approach in developing integrated performance planning, measurement and evaluation in alignment with the organisational strategy (Kaplan & Norton, 1996; 2001; Niven, 2005; Shields, 2007; Bouckaert & Halligan, 2008). The current version of BSC seems capable of serving as an organisation's total strategy management and performance management tool (Kaplan & Norton, 2004a; 2004b). The BSC can assist leaders in public sector institutions to create and sustain a culture of quality and improve organisational performance (Mathys & Thompson, 2006). For example, a study of the implementation of the BSC in the US Postal Service and the US Defence Finance and Accounting Service found dramatic improvements in the performances of both

organisations, especially the emergence of fact-based performance improvement cultures (Mathys & Thompson 2006).

Performance governance

Performance governance is the fourth element of the framework. Performance governance can be regarded as the latest system for managing performance in public sector organisations (Bouckaert & Halligan, 2008). Performance governance concerns social leadership mastery to promote ethical practices and value-based outcomes for sustaining public sector performance. This should lead to the enhancement of the existing performance governance system by incorporating systematically all of the organisation's internal and external stakeholders through a collaborative approach to decision-making (Bouckaert & Halligan 2008). If leaders are capable of maintaining and promoting performance governance and stay focused on their stakeholders, it is likely that the organisation will be able to achieve the desired sustainable performance outcome (Bossert, 1997; Bouckaert & Halligan, 2008).

Using the Conceptual Framework to Guide the Research

The conceptual framework that emerged as a result of the literature review was used to guide the research and analyse the data found from the study. In doing so, the secondary research questions emerged from the alignment from each of the four concepts. These questions explored the factors that have contributed to or challenged the implementation of the BSC in the IMOF. The research questions as guidance for the interview and analysis were:

A. Leadership Effectiveness:

1. What were the factors that contributed to the successful implementation of the BSC in the IMOF?
2. What role did leadership play in the implementation of the BSC in the IMOF?
3. What were the factors that challenged the effectiveness of the leadership role in implementing the BSC?

B. Strategy and HRM 'Fit':

4. How were the organisational strategies developed under the BSC approach? How were they aligned with HRM and departmental strategies among units within the IMOF?

5. What were the factors that challenged the organisation in managing and linking those factors with IT strategy and HRM?

C. Performance Management System:

6. What role did the BSC play in improving organisational performance in the IMOF?

7. What were the factors that challenged the implementation of the BSC to improve the IMOF performance outcomes?

D. Performance Governance:

8. To what extent were stakeholder concerns and governance principles accommodated in the IMOF's BSC system?

9. What were the factors that challenged the sustainability and governance of the BSC-based performance management?

There are two groups of key actors in the implementation of BSC in the IMOF: leaders and KPI managers. The previous studies on the BSC implementation in public sector organisations in Australia and the UK noted that leaders perceived different perspectives than managers particularly on the use of the BSC to improve public sector performance outcomes (Umashev and Willet, 2008; Bohoris & Vorria, nd.; Praities, 2009). For instance, different perspectives and contributions from leaders and managers can be found in the process of aligning the organisational strategy and cascading the strategy map (Umashev and Willet, 2008; Bohoris & Vorria, nd.) as well as in the use of the traffic-light rankings in the government's performance reviews (Praities, 2009). Thus, the conceptual framework is also used to analyse the data gathered from the perspective of IMOF leaders and KPI managers and examine whether the organisation has been achieved the leadership effectiveness, a strategy and HRM 'fit', a functioning performance management system and effective performance governance as these are desirable under the successful implementation of the BSC to improve the IMOF performance outcomes (See Appendix H).

Conclusion

In this chapter the review the concept of performance found that performance can be defined as the use of organisation resources to achieve tangible results. It followed by tracing the origin and evolution of the BSC and its relations to improving performance in the private and public sectors. It then complemented with the discussion of the strategic leadership that has been identified as the most important factor leading to the successful implementation of the BSC in the public sector organisations. From this discussion, a conceptual framework emerged. This conceptual framework is now used to guide the research and analyse the data gathered from the implementation of the BSC in the IMOF 2007-2009.

Chapter 3
The BSC and Public Sector Reform in Indonesia

This chapter provides the context for the study of the implementation of the BSC in the IMOF under the bureaucracy reform agenda. The chapter commences with a discussion about the character of the Indonesian bureaucracy and its problems before 2006, followed by the history of Indonesian public sector reform (1945-2006). Then attention is devoted to the bureaucratic reform agenda in the IMOF that commenced in 2007. The discussion of the IMOF experience focuses on delineating the process of BSC implementation and transforming the ministry to be an efficient and effective public service organisation that is capable of better dealing with diverse challenges.

The Character of the Indonesian Bureaucracy Before 2006

The public service is recognised as a key player in the overall development of a country (Turner & Hulme, 1997; Batley & Larbi, 2004; UNDP, 1999). It is supposed to provide essential services of good quality and in adequate quantity and to create the enabling environment for private sector development and the security of its citizen. It is also responsible for transforming bureaucracy to facilitate poverty reduction. But, in many countries, public services have been characterised by their poor records of service delivery. Researchers have identified a number of features of developing country bureaucracies that have led to poor performance. These include too much political influence over decision making and management, lack of accountability for performance outcomes, patrimonialism, non-merit based promotions, inappropriately qualified workers, lack of sustainable performance and poor governance (Turner & Hulme, 1997; Girishankar, 2001; Wescott, 2008). When there is a lack of political will to take the necessary actions for reform, these characteristics become systemic problems that are difficult to eradicate (Turner & Hulme, 1997).

For the Indonesian public service, unless the government tackles the core systemic problems in the bureaucracy, the government will not be able to improve public service performance substantially and sustainably. With regard to the agenda for improving public sector performance, there have been four major systemic problems in the Indonesian bureaucracy for the last two decades (Table 3.1.). These are: lack of strategic thinking, poor HRM strategy

and practice, weak accountability for performance outcomes, and poor governance leading to a lack of citizen focus (Toha, 1987; Yudhiantara, 1997; McLeod, 2006; Turner et al., 2009; Prasojo, 2012).

Table 3.1. Major Systemic Problems in the Indonesian Bureaucracy Before 2006

No.	Systemic problems	Description	Impact
1	Lack of strategic thinking	Too much political influence in public sector decision-making and management	Inefficiency and ineffectiveness in public administration and decision-making processes.
2	Poor HRM strategy and practice	Problematic HR policy and practices, patrimonialism and non-merit based promotions	Poor public sector performance at organisational and individual levels.
3	Weak accountability for performance outcomes	Lack of sustainable performance management system	
4	Poor governance leading to lack of citizen focus	Poor quality of public services	Lack of integrity, sustainability and equity in public sector management and reform.

Source: Toha, 1987; Yudhiatara, 1997; McLeod, 2006; Turner et al., 2009; Prasojo**,** 2012.

As the first systemic problem, lack of strategic thinking was embodied in complex political and public administration processes in Indonesia. This problem found expression in the lack of capacity of public sector organisations leading to their difficulty in determining long-term plans during 1945-1965 and much later in developing transformational policies after the Asian Financial Crisis of 1997. This problem was manifested in the unnecessarily large and complex organisational structures of government institutions. The bureaucracy was rigid and used a rule-based hierarchy to perform organisational functions. Focus on national vision and mission could be easily distracted by the details of bureaucratic operations and the silo mentality of government organisations.

For example, the reform in public financial management in 2003-2004 improved the legal aspects and processes of public expenditure management (IMOF, 2004). However, strategic planning and program implementation in the public sector still suffered as the focus of bureaucrats and legislator still centred on the details of the annual budget and the related programs or activities. Furthermore, there was no process for accommodating policy debate or a process for policy formulation over a term of more than five years. Even though the

Badan Perencanaan Pembangunan Nasional (Bappenas, the national strategic planning agency) held a series of formal meetings on strategy and plan formulation, so-called *musrenbang* (*musyawarah perencanaan pembangunan*, development planning meeting), this process still lacked strategic orientation. Participants from government and other stakeholders were absorbed in the details of the annual budget, programs and activities of the government institutions rather than strategic goals and plans.

The second systemic problem in the Indonesian bureaucracy was poor HRM strategy. There were problems in HR policy and practices. In terms of HRM policy, the problems emerged from out-dated civil services laws and policies, particularly with regard to promoting good quality public service delivery and performance. With regard to HR practices, there were problems with regard to patrimonialism in the bureaucratic culture, non-merit based promotions and lack of competent workers (McLeod, 2006). In addition, there were three HRM agencies with overlapping functions. This situation contributed to overstaffing and low competence in the Indonesian public service (Turner et al., 2009; Prasojo, 2012). The three agencies have tended to compete with each other leading to inadequate strategies and policies in HR recruitment, development and training, and performance evaluation.

The third systemic problem was weak accountability for performance outcome in the Indonesian public sector. A performance management system was lacking as indicated by the misalignment of the national planning system, budgeting system, procurement system, service delivery and the performance accountability report system (IMOF, 2004). There were three issues that caused problems relating to performance accountability. The first issue was that the Indonesian public sector financial performance management was in transition towards public financial performance reporting as mandated by *Law 17/2003 on the State Finances*. Second, there was no link between financial and operational reporting in public sector organisations. Finally, alignment between organisational and individual performance had not been established by 2006.

With regard to the first issue in financial management and reporting, accountability for the implementation of the state budget in the form of audited financial reporting was mandated to begin in 2006. However, the government accelerated the implementation of accounting and financial reporting reforms by drafting the audited financial report regulation in 2004 (IMOF, 2006c). The government was aware of difficulties, including the possibility of high expectations that might be accompanied by lack of understanding of technical aspects as well

as inadequate knowledge of stakeholders. In line with the *reformasi* era, society was demanding improved government financial reports in a timely manner. Of particular concern was the inability of the Supreme Audit Board (Badan Pemeriksa Keuangan [BPK]) to do its job properly due to inadequate reporting and resources.

With regard to the second issue on the lack of linkage between financial and operational reporting, to promote good governance in public sector activities and following the Osborne and Plastrik (2000) performance measurement model, government institutions were mandated to develop performance accountability based on input, processes, outputs, and outcomes (Wijaya, 2007). The system for performance accountability in government was then called *Sistem Akuntabilitas Kinerja Instansi Pemerintah* (SAKIP, 'Government Institution Performance Accountability System'). However, SAKIP implementation had been focused on the accountability reporting process rather than on a performance improvement strategy (Solikin, 2006). Moreover, the harmonisation between financial and activities performance accountability in the public sector organisations has not been fully established. The target for implementing performance-based budgeting was in 2005, but the system was only introduced in 2008.

With regard to the third issue in individual performance management, the link between individual and organisational performances was not fully established. There were no leadership competencies frameworks for public sector leaders at the central and local government levels that linked with organisational performance. For instance, the leadership succession in the bureaucracy was still based on loyalty and networks (McLeod, 2006) and an outdated civil service law (Effendi, 2012). The Indonesian public sector still used an approach for assessing the individual performance that prized loyalty and obedience but bothered little about competencies, coaching and results (Turner et al., 2009). Moreover, there was no integrated system that linked individual performance with the organisational performance management in most government institutions (IMOF, 2003; Sutiyono, 2008; Turner et al., 2009).

The fourth systemic problem in the Indonesian public service was poor governance leading to lack of citizen focus. Poor governance in public organisations has been indicated by the high level of corruption in the bureaucracy since 1945 (Sukarno, 1964). In the Soeharto era, by the end of 1980s, the late Prof. Soemitro Djojohadikusumo gave a controversial statement claiming that leakages of government finance had reached about 30% of the total budget

(Waluyo, 2007). In addition, data published after the Asian Financial Crisis in 1997, still showed the great need for governance improvement (Transparency International, 2009). Indonesia continued to rank poorly on Transparency International's Corruption Perceptions Index (Transparency International, 2009) and on the World Bank's governance indicators (World Bank, 2011). As shown in Figure 3.1, these WB rankings estimate of governance index ranges from approximately -2.5 (weak) to 2.5 (strong) for Indonesian governance performance.

Figure 3.1. Indonesia Governance Index
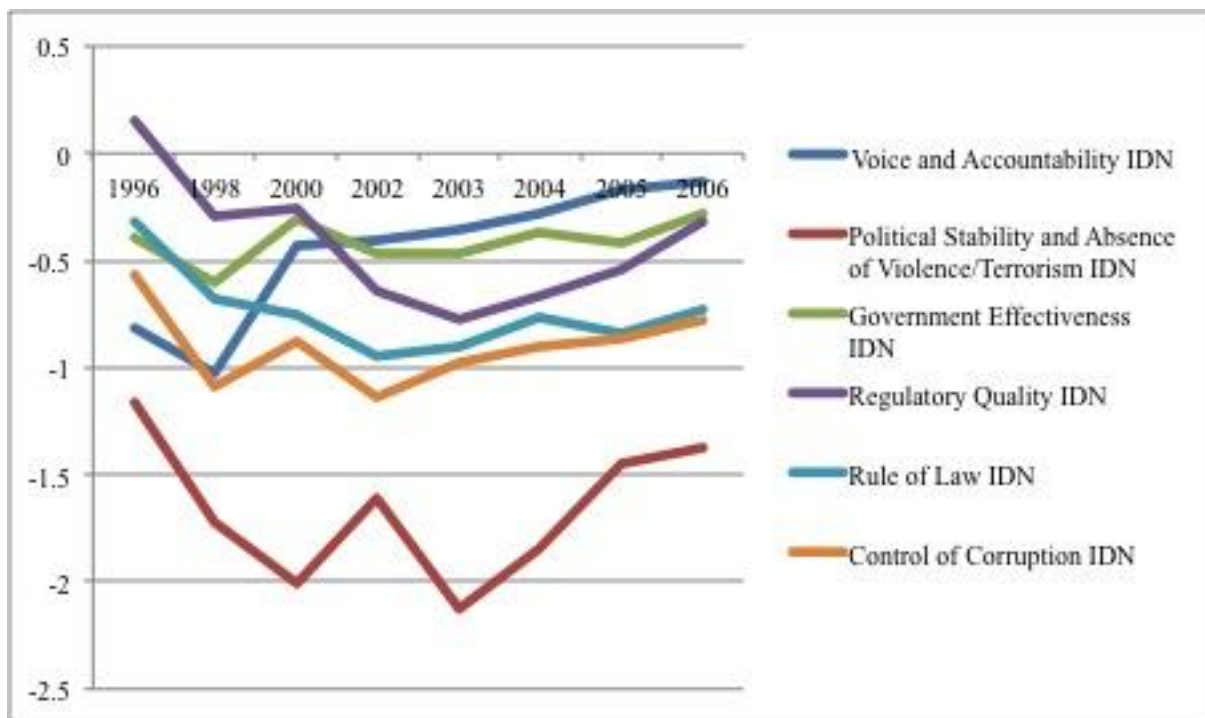
Even though there has been improvement in several governance indicators during 1996-2006, such as voice and accountability, others such as control of corruption and rule of law seem to be worse than before the Asian Financial Crisis of 1997. Furthermore, before the bureaucracy reform agenda was initiated in 2006, Indonesia ranked low at 130th along with Papua New Guinea, Zimbabwe and Ethiopia in terms of corruption (Transparency International, 2009). These reports indicated that the corruption eradication program was not yet effective (Husodo, 2008).

In summary, the four systemic problems had adverse impacts on the efficiency and effectiveness of public administration and decision-making processes. The impacts include incompetent and poor individual performance, poor organisational accountability for the

performance outcomes, lack of integrity, lack of sustainability and inequitable in outcomes from government programs (Toha, 1987; Turner & Blunt, 2012; Prasojo, 2012).

History of Indonesian Public Sector Reform (Before and After 2006)

Indonesian governments have for many years been aware of the four systemic problems that have afflicted public administration in the country. The governments have in varying degrees introduced reforms to address the issues. This section traces the history of these reforms.

The history of reform of the public sector started on 17 August 1946 in Yogyakarta. In his speech, President Soekarno noted that Indonesia was attempting to eradicate anarcho-syndicalism practices following Indonesian independence in 1945. He referred to this as similar to the severe corruption in Spain during the Civil War and similar to what happened in Britain between 1910 and 1914 (Sukarno, 1964). Soekarno's reform was intended to improve performance by resolute efforts to combat corruption in the public service. However, due to the volatile politics of the time, the government's program to eradicate corruption in the bureaucracy was not successful. Dealing with political movements was the supreme domestic concern of the government.

Reform in the New Order Era (1965-1998)

When President Soeharto came to power, after the political crisis of 1965, the inflation rate ran at more than 600% per annum, economic production and trade were stagnant, and infrastructure was in poor shape. Reforms focused on stabilising political and economic life by implementing centralistic and disciplined policies. During 1966 to 1970, the New Order regime began to assert control over the political, economic and social spheres. A centralised approach to national economic development planning was initiated. As a result, the government reduced the inflation rate from 636% in 1966 to 9% in 1970 and generated an average annual gross domestic product (GDP) growth rate as high as 6.7% during this period (Thee, 2003).

During 1970-1994, based on disciplined strategic development planning, the structure of the Indonesian economy also underwent tremendous changes through rapid economic growth and poverty reduction. Five main policies were used as the basis for accelerated economic growth, namely: stabilisation reform, tax reform, trade reform, foreign investment reform,

and financial sector reform (Wardana, 2004). As shown on Figure 3.2, the implementation of these reforms resulted in a significant GDP growth over the period 1973-1994 and lowered the level of poverty particularly in the period 1976–1993 (Hill, 1996; Wardana, 2004).

Figure 3.2 Trends in Poverty Incidence 1976-1993

Indonesia Poverty Incidence, 1976-1993		
Year	Total (millions)	% of population
1976	54.2	40.1
1978	47.2	33.3
1980	42.3	28.6
1981	40.6	26.9
1984	35	21.6
1987	30	17.4
1990	27.2	15.1
1993	25.5	13.5
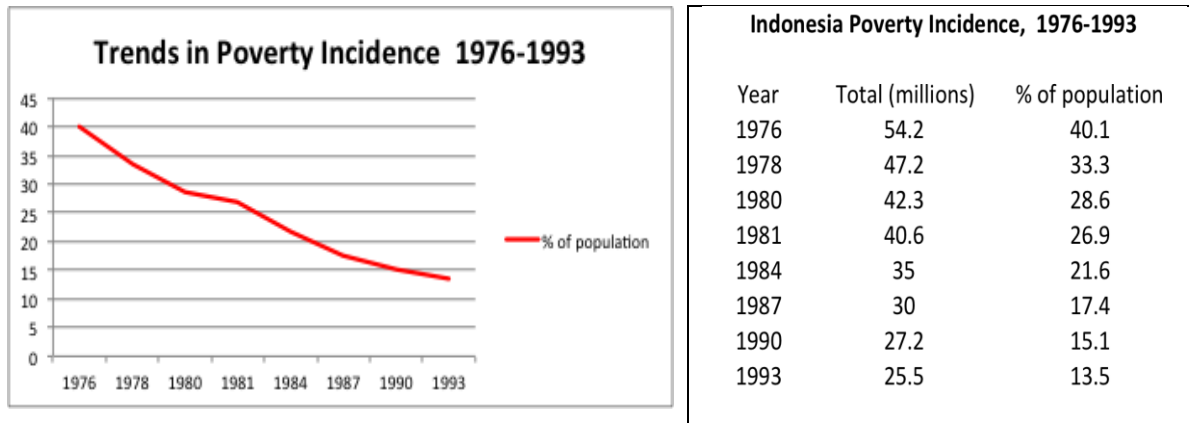
Source: BPS (1991) in Hill, 1996, p.194

Under Soeharto's leadership, Indonesia was able to turn the economy around (Thee, 2003). But, there was also rigorous control of society, widespread patronage, and strict loyalty was demanded of the bureaucracy to Soeharto with the maintenance of political stability as the ultimate priority for government (Turner, 2001; Thee, 2003). There were critics and suggestions for reforming Soeharto's New Order bureaucracy for better performance. For instance, Kristiadi (1997) suggested the use of the 7S McKinsey model to reshape existing bureaucratic organisations by forming entities that were open, flexible, flat, efficient, rational, decentralised, that would adapt to environmental changes and provide higher levels of performance (Kristiadi, 1997).

The Reformasi Era (1999-2002)

The Asian Financial Crisis hit Indonesia particularly hard in 1997 and the government sought IMF assistance. The government requested assistance from the IMF and expressed a commitment to the implementation of a reform package program for the state and public administration (Indrawati, 2002; Basri, 2010). However, the implementation of the IMF reform lacked political support. Finally, on 15 January 1998, President Soeharto signed the second letter of intent, officially supporting the 50 policy reform actions prescribed by the IMF (Indrawati, 2002). Furthermore, a range of problems that had been identified as leading

to persistent government underperformance following the economic crisis, led to vastly increased support for the political opposition and forced President Soeharto to step down in May 1998.

Several initiatives now emerged to change the previous authoritarian and centralistic order of President Soeharto. This reformation era was a national movement for pursuing reforms in politics, economy, the judicial system and public administration (Tjiptoherijanto, 2007). The central reformation era in the Indonesian public sector can also be defined as an era of change in response to the problems in the bureaucracy under the New Order regime (Toha, 1987; Yudhiatara, 1997; Hughes, 2003; Gregory, 2003; Turner et al., 2009, Effendi, 2007). The central reformation idea was to democratise nationally to eradicate the systemic problems of corruption, collusion and nepotism (*Korupsi Kolusi Nepotisme* [KKN]) in the bureaucracy (Turner et al., 2009; Effendi, 2007). For instance, Indonesia initiated the 'big bang' decentralisation agenda (Laws No. 22 and 25, 1999). This provided a much greater role for the democratically elected local leadership in 33 provinces and 530 sub-provinces to govern and manage the policies and budget for development (Turner, 2001; Ministry of Home Affairs, 2009). The decentralisation agenda as well as some reform of civil service administration (Law No.43/1999) paved the way for further public service reform to finally create efficient and clean bureaucracy (Tjiptoherijanto, 2007).

To reform the traditional public administration culture, two new sets of ideas were introduced. First was the national campaign for New Public Management (NPM) to ignite civil service reform and second was the idea to reform the public expenditure management system. With regard to the first idea, campaigning for NPM, the influence of western literature on bureaucratic reformers was extensive in Indonesia. For example, promoting 'the reinventing government' principles in public administration had been emphasised in the national leadership programs during the transformation era (Osborne & Gaebler, 1992; Osborne & Plastrik, 1997; Larbi, 1999). Also, there were several official leadership training publications of the State Administration Agency (Lembaga Administrasi Negara [LAN]), and literature about NPM concept and the US GPRA was used by the State Minister for the the State Apparatus Empowerment (Menteri Pendayagunaan Aparatur Negara [MENPAN]) to promote reform in government accountability.

The second set of reform ideas, involved changing the public expenditure management system. The previous public expenditure management system was considered no longer

efficient or well suited to the changing external environment and the increasing domestic demand for good governance. Thus, the new government embarked on an effort to reform the budget and financial management system. In August 1998, a drafting team was appointed by the IMOF to propose new legislation for budget formulation, treasury management and audit. The government introduced three bills into parliament (on the State Finances, the State Treasury and on Auditing Management and Accountability in the State Finances) in September 2000. These three bills contained general principles on government budgetary process and financial management and served as the legal framework for reforms in public expenditure management. Key principles in this reform were:

- accountability for results to parliament and the people;
- full transparency in all government transactions;
- empowerment of professional managers to deliver performance;
- strong, professional, independent oversight by a Supreme Audit Institution, and
- elimination of duplication in the audit functions (IMOF, 2003).

The IMOF leadership was also committed to tax and customs reform following the letter of intent as agreed with the IMF in 1998. Eventually the bill for reforming public expenditure management (2000) and the tax and customs administrative reform (2001-2002) led to further civil service reform as a systemic effort to improve the processes and outcomes of public services delivery (IMOF, 2002; Brondolo, Silvani, Borgne & Bosch, 2008; Basri, 2011). For instance, the term 'reform in public financial management' emerged in many Indonesian public sector documents to represent government initiatives to reform its governance, business processes and service delivery (IMOF, 2002; MENPAN 2007; Horhoruw, Karippacheril, Sutiyono & Thomas, 2012).

Reform in public financial management (2003-2005)

Following democratisation, the government of Indonesia enacted *Law No.17/2003 on the State Finances*, *Law No. 1/2004 on the State Treasury*, and *Law No. 15/2004 on Auditing Management and Accountability in the State Finances*. These three laws on public financial management replaced colonial laws that had operated for more than five decades in Indonesia. Following these reforms was the reorganisation of the Ministry of Finance. First was the separation of functions between budget preparation and budget execution. In 2004, the new Directorate General of Budget and Fiscal Balance was developed to manage the

budget formulation and the Directorate General for the Treasury was established to manage treasury operations and budget implementation functions.

The IMOF started to play a significant role in comprehensive reforms of the regulatory framework for public financial management with the primary objective of improving the efficiency and quality of public spending (IMOF, 2002). The government had articulated the objective of having a 'state of the art' public financial management (PFM) system in place by 2008. To achieve this, the reform program in public financial management aimed for: reforming an outdated legal environment for PFM by issuing a modern set of laws and implementing regulations; reforming an obscure and inefficient budget formulation process by discontinuing the separate recurrent and development budgets; introducing performance budgeting systems and a Medium Term Expenditure Framework (MTEF); reforming budget implementation, in particular the inefficient payments system and weak monitoring arrangements; modernising management of the Indonesian treasury function to consolidate fragmented cash management and make government banking arrangements more efficient; introducing modern governmental accounting standards and accounting practices to improve the reliability of government financial reporting; and reforming arrangements for government auditing, in particular strengthening the mandate and capacity of the Indonesian Supreme Audit Board (BPK), by addressing overlaps between external and internal audit agencies and clarifying their respective roles and responsibilities (IMOF, 2002; 2003; 2004c).

One of the most significant changes was the introduction of performance-based budgeting and accounting for introducing the preparation of the International standard governmental financial reporting including the preparation of the government balance sheet, particularly in reporting the state assets, to improve the traditional financial management processes that mainly focused on financial reporting in terms of budget expenditures. This initiative involved a pilot exercise of changing the IMOF budget into a Medium Term Expenditure Framework. To ensure effective design and implementation of the MTEF, effective leadership was required as prescribed in the concept of 'let managers manage' and accommodated it in *Law No. 17/2003 on the State Finance*. This was followed by the enactment of government regulations (*Peraturan Pemerintah*) No. 20 and 21 of 2004 to enhance good governance practices and accountability based on performance in the Indonesian public sector. However, these regulations failed to provide a clear framework for reform or to improve public sector performance (Solikin, 2006; Wijaya, 2007).

To complement the major public financial management reform, the government also introduced in *Law No. 25/2004 on the National Development Planning System*. In line with the existing strategic performance management system, or SAKIP, promoted by LAN and MENPAN, the government institutions were mandated to increase transparency and accountability based on performance in the short, medium and long run by clearly defining visions, missions, objectives and performance outcomes. However, findings from studies on the effectiveness of the public sector strategic planning and SAKIP implementation in local and central government units revealed the need to strengthen further the performance management system (Solikin, 2006; Wijaya, 2007; Nusantoro & Subiyantoro, 2008; Ling, 2008). The implementation of SAKIP up to 2006 had been slow and problematic due to lack of top leadership involvement, lack of synergy and strategy alignment between financial and operational management or among units within and accross the ministries, as well as limited attention on the whole-of-government performance management system (Wijaya, 2007; Nusantoro & Subiyantoro, 2008; Ling 2008; Budiarso & Mir 2012). These factors triggered the IMOF leadership to introduce the BSC approach as part of the bureaucracy reform agenda in 2007.

IMOF as pioneer of the Indonesian Bureaucratic Reform Agenda (2006-2007)

In early 2007, the term 'bureaucracy reform' was introduced by the IMOF for pioneering the whole-of-government public administration reform. The House of Representatives and government, supported by KPK, discussed and formulated national policy for bureaucratic reform and approved three organisations as the pioneers for the Indonesian public administration reform program i.e. the IMOF, BPK, and the National Supreme Court Office Mahkamah Agung-MA). Eventually, all of the pilot organisations, except the National Supreme Court Office, opted to implement the Balanced Scorecard (BSC) as a strategic performance management tool for the bureaucracy reform agenda.

The IMOF is an important and large organisation at the centre of government dealing with economy, fiscal policies and public financial management and development. Under the Finance Minister, the IMOF is comprised of 12 structural units each headed by an Echelon I leader. Four expert staff and several specially appointed advisers are also classified the equivalent level at Echelon I (Table 3.2.).

The IMOF performs 12 different structural functions and deals with complex issues including taxation, customs and excise, treasury, finance and budgeting, state asset management, state debt management, capital market and financial institutions supervision, and finance education and training (IMOF, 2003). The IMOF leaders often called the IMOF 'leadership structure' as such a 'holding type' of organisation. The holding type organisation means that even though each Echelon I has its diverse portfolios such as managing state revenues, expenditures, debt and state asset, and supervising the capital market and non-bank financial institutions, all of those functions are managed by 12 structural Echelon I under one ministry that requires such high-level policy harmonisation and synergy to achieve the whole-of-IMOF's vision and mission. In addition, the IMOF also has a substantial number of employees, approximately 62,000 people (IMOF, 2009).

Table 3.2. Indonesian Ministry of Finance Leadership Hierarchy in 2009

No.	Echelon I under Indonesian Finance Minister	Head/Chairman/Top Leader
1	Fiscal Policy Office	Head
2	Finance Education and Training Agency	Head
3	Capital Market and Non-Bank Financial Institutions Supervisory Agency	Chairman
4	Directorate General of Budget	Director General
5	Directorate General of Customs and Excise	Director General
6	Directorate General of State Assets Management	Director General
7	Directorate General of Taxation	Director General
8	Directorate General of Debt Management	Director General
9	Directorate General of Treasury	Director General
10	Directorate General of Fiscal Balance	Director General
11	Inspectorate General	Inspector General
12	Secretariat General	Secretary General
13	Expert Staff for International Financial Relations	Functional structure
14	Expert Staff for State Revenue	Functional structure
15	Expert Staff for State Expenditure	Functional structure
16	Expert Staff for Capital Market and Non Bank Financial Institutions	Functional structure
17	Special Staff for IT and Communication System	Functional structure
18	Special Advisers to the Finance Minister (two persons)	Functional structure

Source: IMOF, 2009

Looked at broadly, the IMOF has a leadership cadre comprised of 9,516 senior officials distributed among five levels of leadership and management starting from the Finance Minister at the top of the hierarchy and moving down to Echelon V as the lowest level manager in branch offices in the provinces and districts (Table 3.3.). These are formally

classified as structural posts. Most of these structural posts are in the Echelon III and IV levels.

Table 3.3. IMOF Senior Officials Composition in 2009

Senior Officials	Echelon I	Echelon II	Echelon III	Echelon IV	Echelon V	Total
Doctoral/PhD Graduates	7	17	23	10		57
Master Graduates	7	148	954	2,551	9	3,669
Bachelor Graduates		38	502	4,197	83	4,820
Dipl. 3/High School Graduates		1	14	894	61	970
Total Leaders	14	204	1,493	7,652	153	9,516
% (of 62,000 employees)	0.02%	0.3%	2.4%	12.3%	0.2%	15.3%

Source: IMOF, 2009

The role of Dr Sri Mulyani was central in promoting bureaucracy reform in the IMOF following her appointment as the Finance Minister in 2005. She actively campaigned for bureaucratic reform leading to the parliament's endorsement of the national bureaucratic reform agenda in three pilot organisations in July 2007. In addition, the IMOF's bureaucracy reform program was fully supported by President Dr Susilo Bambang Yudhoyono. The reform program was in line with the President's program in the National Medium Term Development Plan in 2004–2009, which targeted good governance; improved supervision and accountability; restructuring and better institutional management; improved public service and HR management; and public services quality enhancement (IMOF, 2007).

In order to provide better public services, improve performance and promote good governance practices, the IMOF developed a strategy for reform based on 'three plus two' pillars (IMOF, 2008c, 2009). The first three pillars were: restructuring organisation (office modernisation), improving business process and improving HR management. The other two pillars were introduced later and are improving remuneration in the IMOF and reforming the IMOF performance management system by implementing the BSC (Figure 33). The first three pillars had to be done in the IMOF before the other two.

Figure 3.3. The Pillars of the IMOF Bureaucratic Reform Agenda

Source: Adapted from IMOF, 2009

First, under the pillar of organisational restructuring during 2006-2007, the IMOF ran three programs: office modernisation, organisational restructuring and organisational refocusing. For office modernisation, the IMOF bureaucratic reform agenda focused on increasing the coverage of the reformed office that had been initiated particularly in DG tax since 2000, in DG Customs and Excises since 2005 and in DG treasury since 2006 (IMOF, 2007c; 2008c). The aim of office modernisation was to provide improved infrastructure for more efficient and accountable public service delivery supported by IT and automation for improved business processes (IMOF, 2007c).

With regard to the restructuring program, the IMOF followed up the 2003-2005 restructuring program during 2006-2007 with the separation of functions of the former DG Budget and Fiscal Balance (Direktorat Jenderal Anggaran dan Perimbangan Keuangan [DJAPK]) into two Echelon I's: DG Budget (Direktorat Jenderal Anggaran [DJA]) and DG Fiscal Balance (Direktorat Jenderal Perimbangan Keuangan [DJPK]). The DG Budget was mostly involved in costing budget proposals and was best placed to manage the new medium–term expenditure framework. The new DG Fiscal Balance involved in managing fiscal relations with lower levels of government. In addition, a new Fiscal Policy Office (Badan Kebijakan

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Fiskal [BKF]) was created for macroeconomics, long-term fiscal sustainability and fiscal risk. Furthermore, in 2006, two Echelon I units, the DG Treasury and DG State Receivable and Auction (Direktorat Jenderal Piutang dan Lelang Negara [DJPLN]), had been restructured to form three units: DG Treasury (Direktorat Jenderal Perbendaharaan [DJPB]), DG Debt Management (Direktorat Jenderal Pengelolaan Utang [DJPU]) and DG State Asset Management (Direktorat Jenderal Kekayaan Negara [DJKN]). Moreover, a merger was undertaken between two Echelon Is, the former Capital Market Supervisory Agency (Badan Pengawasan Pasar Modal [Bapepam]) and DG Non-Bank Financial Institutions (Dirjen Lembaga Keuangan [DJLK]) into one Echelon I unit called the Capital Market and Non-Bank Financial Institutions (NBFI) Supervisory Agency (Badan Pengawas Pasar Modal dan Lembaga Keuangan [Bappepam-LK]) This was done in preparation for the development of the Indonesian Financial Service Authority in 2012/2013 (IMOF, 2007c; Blondal, Hawkesworth & Choi, 2009).

With regard to the organisational refocusing program, the IMOF developed the new Inspectorate of Special Investigation (Inspektorat Bidang Investigasi [IBI]) under the Inspectorate General, and established the internal compliance directorate and HR Transformation Directorate in the DG Tax as well as transforming the Personnel Bureau into HRM Bureau in the IMOF Secretariat General office (IMOF, 2007c). The second pillar of improving business process was directly related to reducing the time taken for service delivery, cutting red tape and improving the quality of processes for better providing services to citizens. The IMOF improved more than 35 business processes in 2007 and many more in 2008, particularly on streamlining processes for delivering key public services; for example, acceleration of the tax file number registration from three working days to one working day; tax appeals procedure from 12 months to nine months; and refund of custom duties from no specific time to a maximum of 30 days.

Finally, the pillar of improving HRM was aimed at changing the paradigm from personnel administration to HRM. The IMOF strengthened its HRM by improving job structure and description based on professional job analysis. For better personnel placement and promotions, the IMOF leadership introduced an assessment centre and encouraged competition to fill vacancies by advertising them internally rather than continuing to rely on promotion by seniority. In addition, by strengthening HRM function in the ministry, coordination within directorates and agencies under the minister's portfolio could be

improved. The HRM reform was also important in terms of an attempting to match positions with skill requirements and responsibilities, and to align the job and design of the remuneration structure more closely with that of the private sector.

After implementing the three pillars of reform, the two additional pillars of reform were developed. First, the improvement of the remuneration was based on the Finance ministerial decision No.30/KMK.01/2007. This policy aimed to change the existing reward system which was not based on performance to one which was. In their recent study, Turner et al. (2009) found a complex reward system with highly bureaucratic personnel procedures implemented by central personnel agencies. There were no rewards based on performance, and in practice many staff followed a widespread idiom called PGPS (*pintar goblok pendapatan sama* , "the clever and the stupid receive exactly the same salary"), and RMPS (*rajin malas pendapatan sama,* "the hard-working and the lazy receive exactly the same salary") (Turner et al., 2009). The existing salary system was a cause of demotivation and it restrained the productivity of civil servants. Thus, the IMOF applied a pilot remuneration package based on all 27 grades of positions in the ministry on the advice of professional job analysis done by Hay Consulting. This basically improved the lowest monthly salary in the ministry by more than 100% (from IDR760,500 to IDR1,330,000) and raised the remuneration for the highest position in the ministry by more than five times, (from IDR5,500,000 to IDR46,950,000 per month). This initiative was approved by the parliament as a model for the remuneration package which was intended later for application in all ministries in Indonesia under the bureaucratic reform program (IMOF, 2007c).

The last pillar for the IMOF bureaucracy reform was the agenda of improving the IMOF performance management system by implementing the BSC approach commencing in December 2007. The Finance Minister, Dr Sri Mulyani Indrawati, was committed to a reform strategy to achieve better public services, improved performance and good governance (IMOF, 2007c; 2008c). The BSC was seen as an ideal vehicle for achieving these objectives. She successfully led the ministry in creating strategy maps and identifying key performance indicators focused on the stakeholders' perspective based on the BSC (IMOF, 2008b, 2010). The BSC was developed by 2009. On the signing of the key performance indicators contracts with all 12 Echelon I officials in early 2008, the minister stated that "what the Ministry has done so far basically was an outstanding milestone and achievement, especially for such a big institution with 62,000 employees and 12 portfolios including treasury, taxation, budgeting

and fiscal balance, customs, capital market oversight and state asset management" (IMOF, 2009).

Advancing reform in other Indonesian government organisations (2010-2014)

After endorsement from the parliament in 2007, MENPAN sought greater commitment across the Indonesian bureaucracy for reform to become a government policy priority. The bureaucracy reform agenda aimed to eliminate decades of deeply rooted corruption and to improve service delivery to achieve three main organisational goals: organisation modernisation, business process improvement and improvement of human resource management (Effendi, 2007; IMOF, 2007c; 2009).

The implementation of the nationwide bureaucratic reform was based on Presidential Rule Number 81, Year 2010 on Grand Design Bureaucratic Reform 2010-2025, the MENPAN regulation (PerMENPAN) Number 20 of 2010 on Bureaucratic Road Map 2010-2014 as well as the PerMENPAN Number 7-15 of 2011. The implementation of the reform was organised through the establishment of the Steering Committee of the National Bureaucratic Reform (Komite Pengarah Reformasi Birokrasi Nasional [KPRBN]) and the Special Team for National Bureaucratic Reform (Tim Reformasi Birokrasi Nasional [TRBN]). The Chairman of KPRBN was the Vice President of the Republic of Indonesia, and the members consisted of the Coordinating Minister of Economic Affairs, the Coordinating Minister of Politics, Law and Security, the Coordinating Minister of People's Welfare, the State Minister of Empowerment and State Apparatus and Bureaucracy Reform, the Finance Minister, the Minister of Home Affairs, and the Chief of the Presidential Delivery Unit (Unit Kerja Presiden Bidang Pengawasan dan Pengendalian Pembangunan [UKP4]), and Prof. Ryaas Rasyid (MENPAN-RB, 2010).

In 2010, 11 ministries and agencies were implementing bureaucratic reforms, and by 2014 all ministries and agencies were included in the bureaucratic reform program (MENPAN-RB, 2010). Furthermore, in order to improve the coordination of various policy measures that were installed by KPRBN and TRBN, the government established an Independent Team for Administrative and Bureaucratic Reform and the Quality Assurance Team. Based on the grand design of the Indonesian bureaucracy reform 2009-2014, the government targeted the achievement of three objectives: to realise good and corruption-free governance, to meet public demand for good public services, and to improve capacity and accountability for

bureaucracy performance. Among other things Indonesian government targeted the improvement on the corruption perception index from 2.8 in 2009 to 5 in 2014, and improving the number of accountable government agencies from 24% in 2009 based on SAKIP reporting, to 80% in 2014 (MENPAN-RB, 2010).

Implementing the BSC in the IMOF

This section focuses on how the BSC has been implemented to improve IMOF performance outcomes. The BSC development was the last pillar of the bureaucratic reform agenda in the IMOF. The intention was to reform the existing IMOF performance management system by adapting the BSC approach (IMOF, 2008c).

Starting in mid-2007, the BSC went through four stages of implementation: introduction stage, strategy development stage, strategy implementation stage (cascading the BSC as performance management system), and strategy monitoring and evaluation stage.

Introduction stage: revisiting IMOF's vision and mission

At the introduction stage, the IMOF leadership held several top-level meetings to discuss the IMOF's vision, mission and strategy. As a result, the revised statement of the IMOF vision was : "To become a world class, professional and dignified institution in the managing of public finances and state assets that will be instrumental for the process of transforming the nation into a prosperous, equitable, and highly civilised society" (IMOF, 2008b).

The IMOF missions were categorised into four areas of public financial management: fiscal, economic, social and cultural, and political and institutional arrangement (IMOF, 2008b). IMOF's main objective was to develop a sound and sustainable fiscal policy, prudent, responsible and transparent in managing state assets and state debt. In particular, IMOF was to be proactively involved in solving national economic problems, and promoting national economic development and the capacity to promote a prosperous, equitable and highly civilised society as set out in the national constitution. In social and political management, IMOF aimed to develop a modern society and push forward the process of fiscal and economic democratisation. Finally, in line with society's aspirations and the development of financial technology and public administration, the IMOF aimed to improve institutional

capacity in the field of public finance and to develop staff of high integrity to support rational and equity principles in policy implementation (IMOF, 2008b).

Strategy development stage: designing the IMOF Strategy Map

The second stage of the BSC involved two processes (see Figure 3.4). One was the process of designing the IMOF strategy map; the other was translating the strategy map into strategic objectives and how they could be measured in terms of key performance indicators (KPIs). Also required was the KPI target base information to assist in allocating resources and later for monitoring the performance outcomes.

Figure 3.4. The Process of the Strategy Map Development in the IMOF
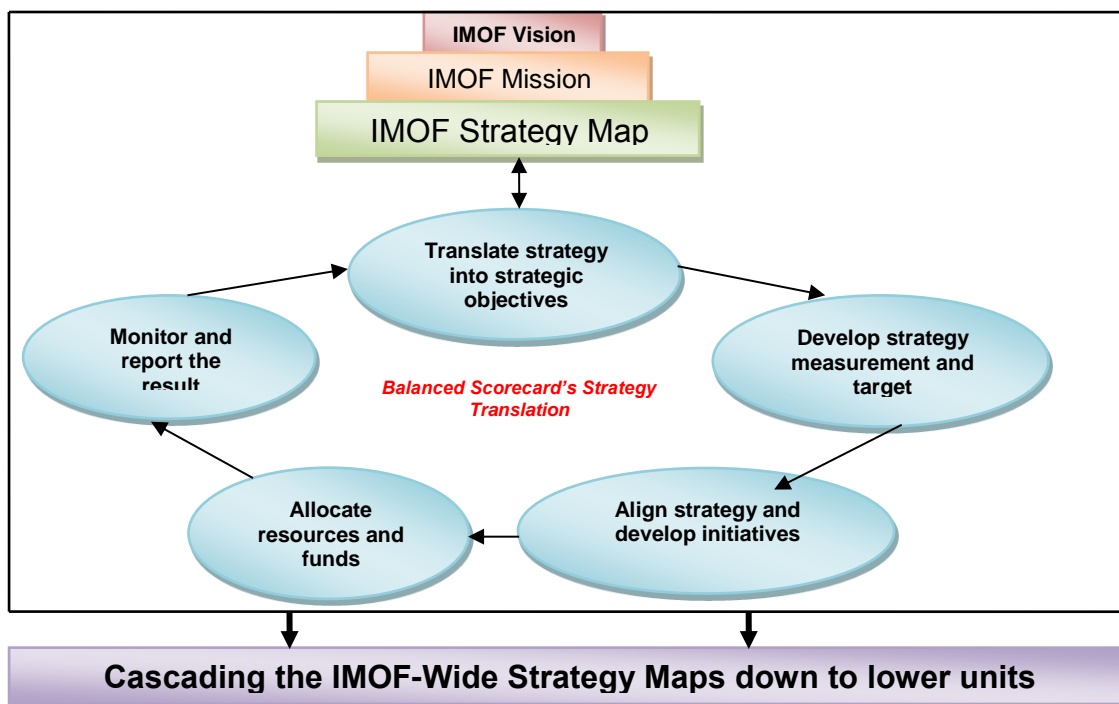
Source: IMOF, 2008c

The initial design template of the IMOF strategy map was by the Minister and all IMOF Echelon Is in 2007 and consisted of three BSC perspectives that reflected the unique characteristic of the organisation: (a) strategic outcomes perspective; (b) strategic drivers (business process perspective); and (c) HRM, organisation, and information and technology (learning and growth perspective). Under those three perspectives key strategic objectives were developed. The IMOF didn't develop a specific financial perspective in the IMOF wide strategy map consisted five themes strategy maps.

The five IMOF strategic themes were the result of intensive brainstorming and discussion among all Echelon I and the Finance Minister leading to the decision made by the Minister to develop IMOF strategic performance management based on the BSC approach in 2006 (IMOF, 2007b). The five themes of the IMOF strategy maps were in line with five key main elements of the Indonesian State Revenue and Disbursement Budget: Revenue, Disbursement, Debt Management, State Asset Management and Capital Market and Financial Institution Supervision (IMOF, 2007b).

In order to achieve the strategic goal, the value chain relationship among perspectives can be established. The strategic goal in each theme was a unified, long-term goal for each IMOF strategy map theme. The strategic objectives were general statement of objectives to be achieved under causal value chain relationship. The strategic objectives measures under the learning and growth perspectives were the foundation for the long-term effort to promote good governance, transparency and accountability in managing performance in all perspectives. Furthermore, the learning and growth perspective was also a driver for achieving strategic objectives under the strategic drivers perspective. The achievement of measurements under the strategic drivers perspective would become the driver for the achievement of strategic objectives under the strategic outcomes perspective. Overall, relationships among perspectives should create value to the organisation's stakeholders.

After drawing the IMOF strategy map with five strategic themes, the IMOF's stakeholders were identified for each of the themes. These combined strategy maps for the five themes for the IMOF were called the IMOF-Wide strategy map (IMOF, 2008b). The next step was to design the content of the strategy map for each theme. In doing so, it was intended to maintain the causal links from the organisational vision, mission and then strategic objectives that comprise of strategic outcomes perspective, strategic drivers perspective and learning and growth perspective in terms of HRM, organisation and information communication and technology (ICT) management.

IMOF Strategy Map: state revenue theme

The State Revenue Strategy Map can be seen in Figure 3.5.The strategic goal of the IMOF Strategy Map under the State Revenue Theme was to improve and secure the state revenues by taking into account economic development and community justice.

The focus of the state revenue was to increase state revenue through three major policies. First was to develop careful planning to increase the tax revenue target by considering the economic circumstances in terms of their potential and the challenges to achieving the existing tax coverage ratio. Second was to improve state revenue from customs and excise collection by imposing an audit program based on a selected group of industries to optimise and harmonise the tariff system. Third was to improve non-tax state revenues (Pendapatan Negara Bukan Pajak - PNBP) through improvement of regulation and considering the prevailing economic condition.

Figure 3.5. The State Revenue Theme Strategy Map
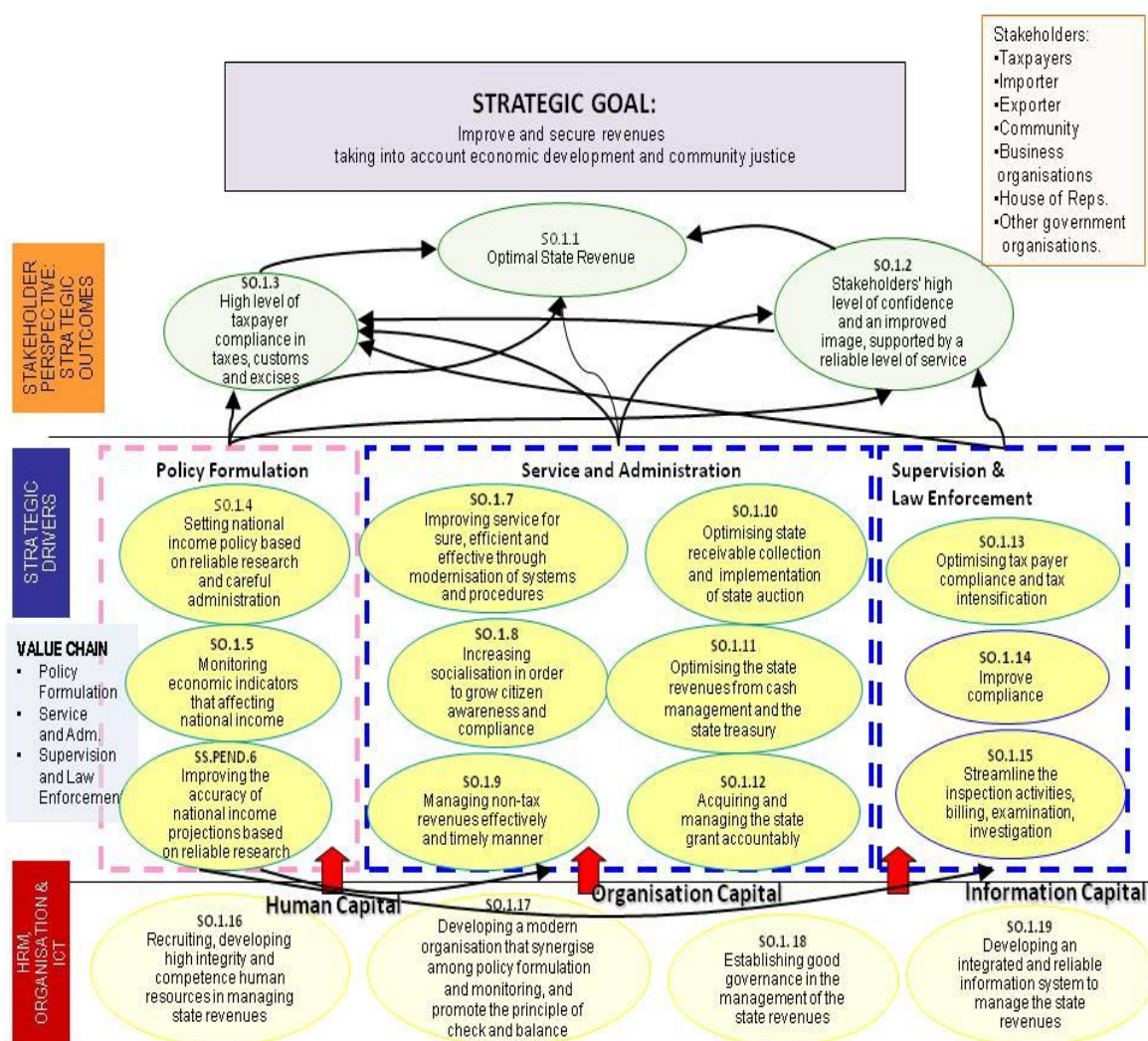
Source: IMOF, 2007b

IMOF Strategy Map: state disbursement theme

The strategic goal of the IMOF Strategy Map under the State Disbursement Theme (Figure 3.6.) was to improve the effectiveness and efficiency of government spending for performing tasks and functions and for the implementation of fiscal decentralisation in line with national priorities and objectives.

The state disbursement strategy had five targets: efficiency in the state procurements of goods and services; effective disbursement of the budget allocation; proper allocation of funds based on social equity; improvement of service quality; and enhancing the reputation of the Ministry in managing state disbursement. Policies were introduced by IMOF to achieve these targets (IMOF, 2007b).

Figure 3.6. The State Disbursement Theme Strategy Map
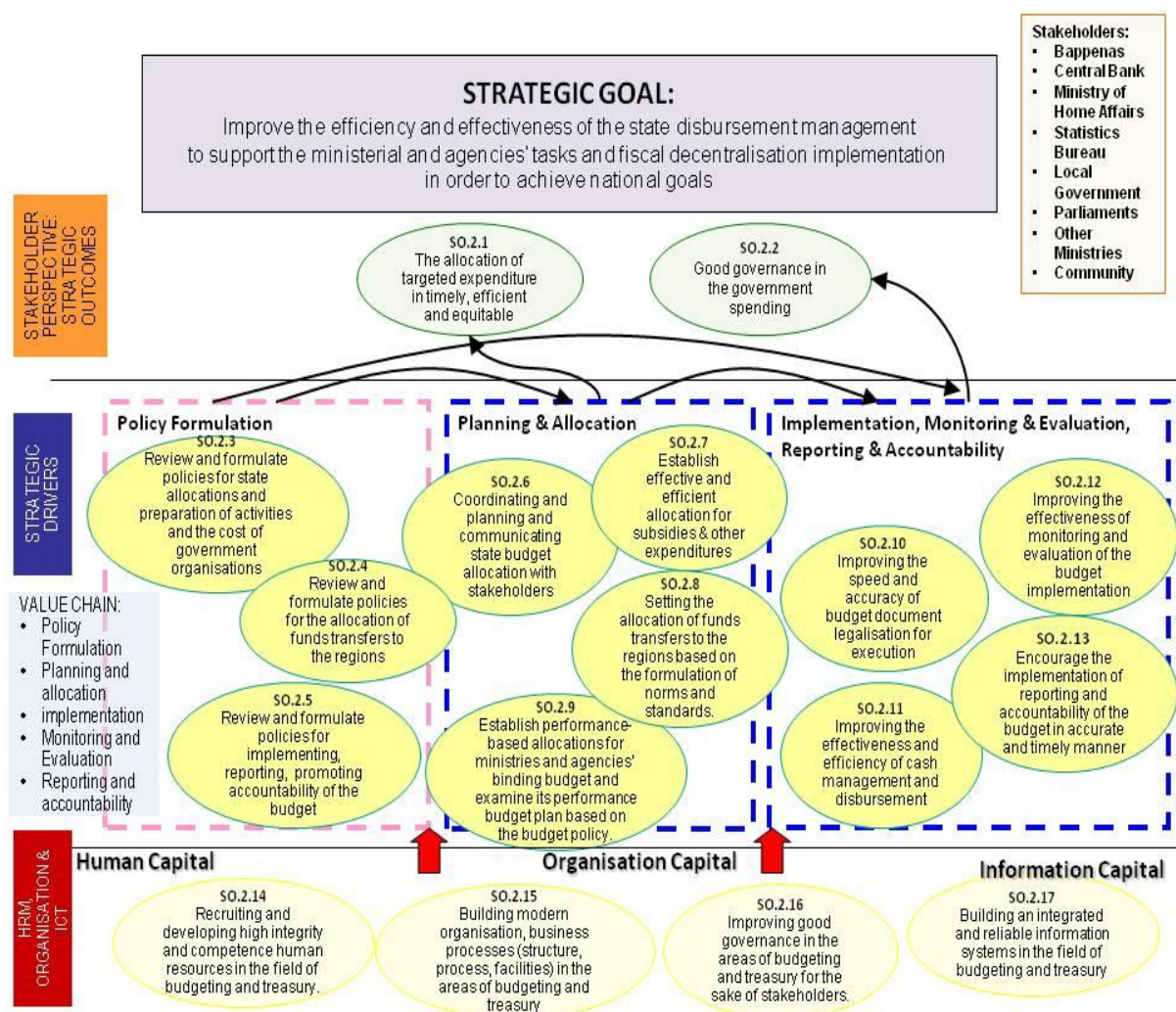
Source: IMOF, 2007b

IMOF Strategy Map: state financing theme

The strategic goal of the IMOF Strategy Map under the State Financing Theme (Figure 3.7.) was to optimise the efficiency of the financial instruments' management with appropriate risk management in order to achieve fiscal sustainability.

Figure 3.7. The State Financing Theme Strategy Map
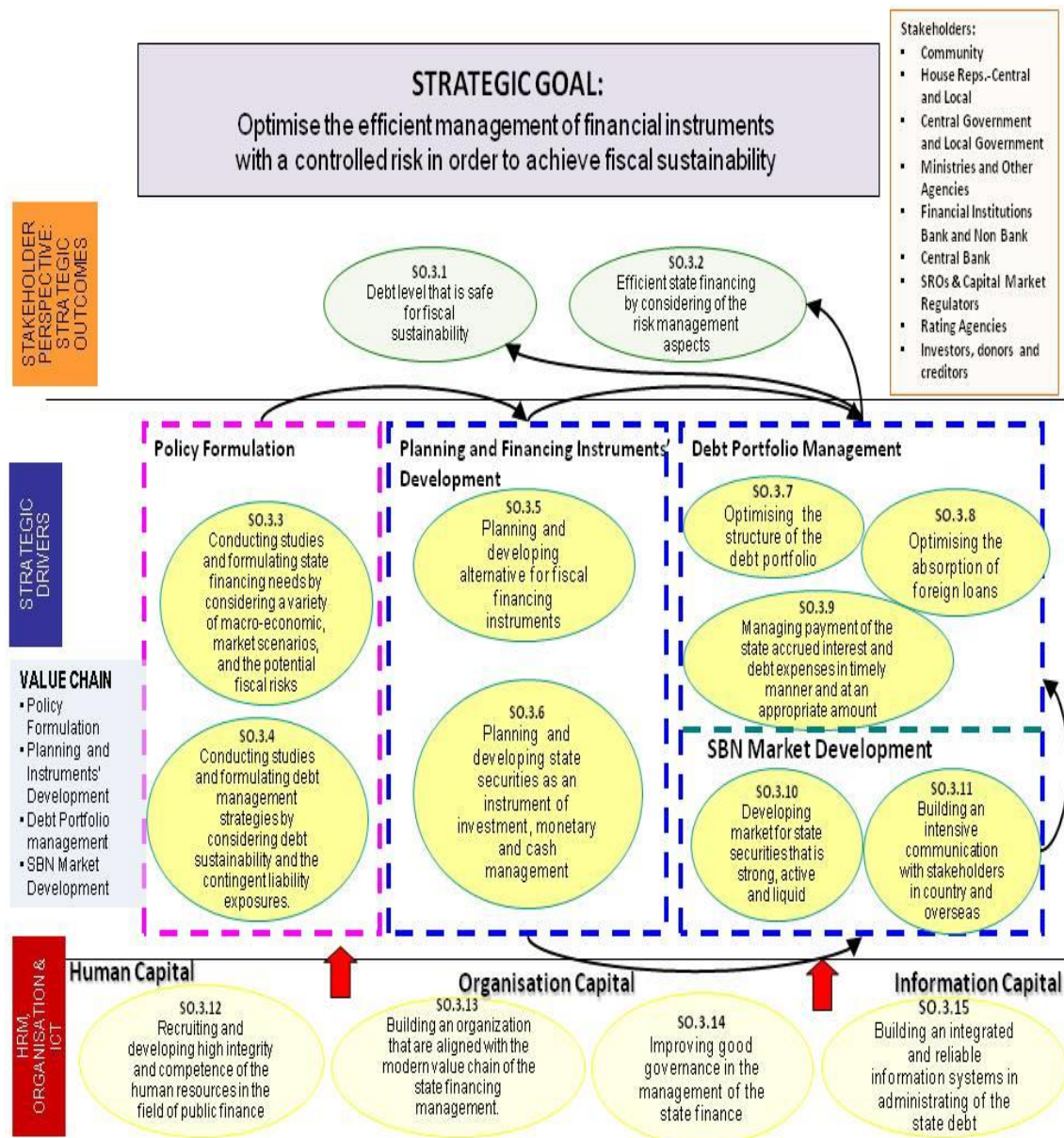
Source: IMOF, 2007b

The strategic outcomes of the state financing theme focused on maintaining the level of state debt to improve debt resilience as indicated by targeted levels of liquidity, solvency and debt

sustainability as well as maintaining efficiency in the cost of financing at manageable risk levels. In addition, the financing policy aimed to reduce the level of debt and create alternative source of financing to remove the budget deficit. Thus, debt sustainability could be achieved (IMOF, 2007b).

The government debt management policy was directed at minimising costs and maximising the benefits of loan management. The strategy of minimising cost of the debt was achieved by an effort to optimising loan disbursement. Optimising the loan disbursement could be done by managing the level of the loan and the need for cash disbursement in a timely manner to prevent the government from paying commitment fees or additional interest.

IMOF Strategy Map: state wealth management theme

The strategic goal of the IMOF Strategy Map under the State Wealth Management Theme (Figure 3.8.) was to optimise the management of state wealth management according to six principles: function, rule of law, transparency, efficiency, public accountability and certainty of value. State wealth is the potential national economic strength that can be used to achieve civil prosperity and equity.

The strategy focus in this field was directed towards optimising the management and valuation of state assets. The rationale was that state wealth management should be done in a comprehensive way according to good governance principles in procurement planning of the state assets needed, procurement execution, acquisition of asset, administration of state assets and asset accountability and reporting. It was considered important to create transparency and accountability in managing state assets.

Law No. 1/2004 concerning the State Treasury gave a specific role to the Finance Minister to manage the state assets. The IMOF needed to take responsibility for managing state assets including the costs associated with the procurement, management and disposal of state assets.

Figure 3.8. The State Wealth Management Theme Strategy Map
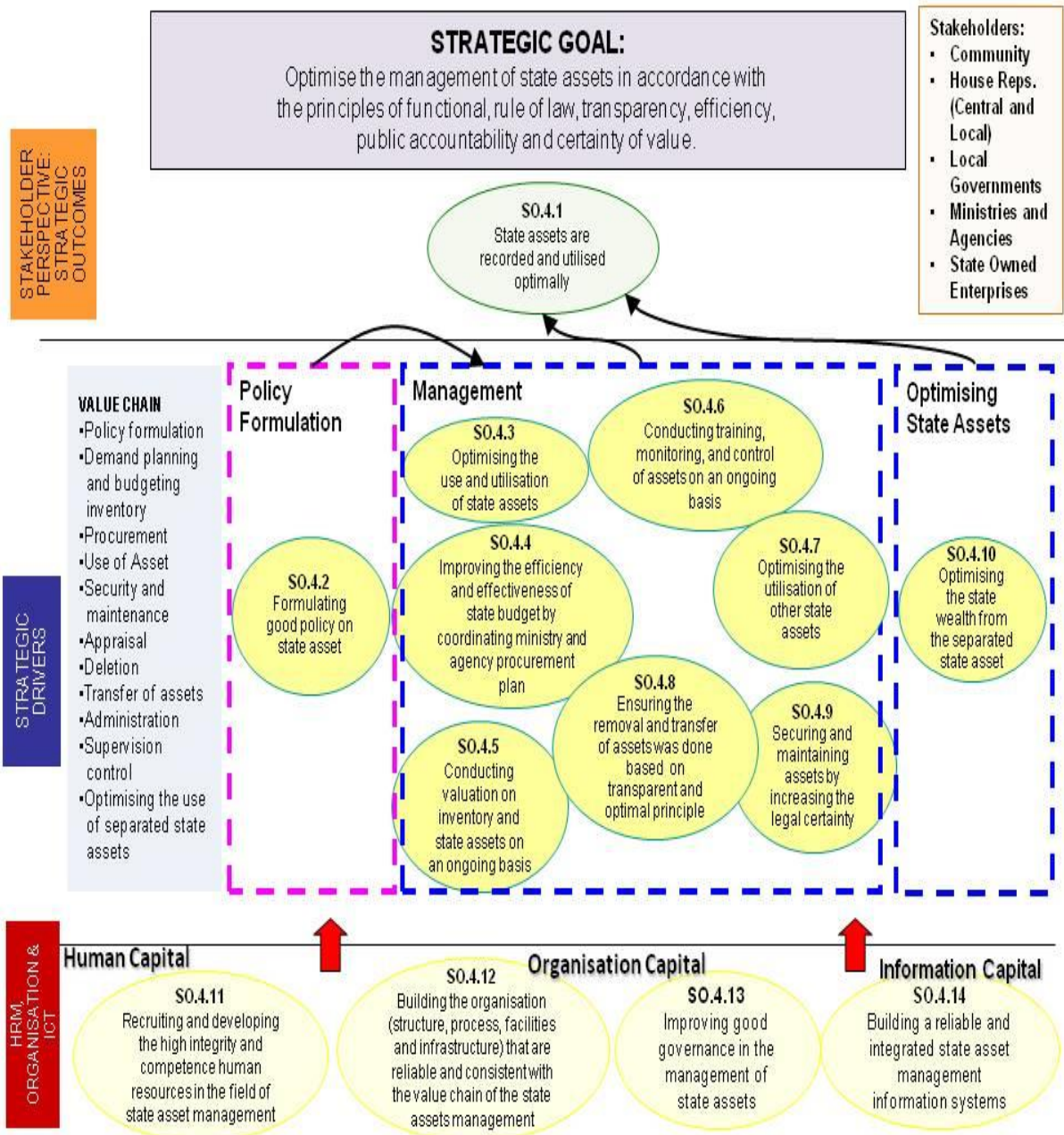
Source: IMOF, 2007b

However, the result of the audit by BPK on the management of state assets by 2007 was still a disclaimer of opinion (IMOF, 2006c; 2008c). The reason for this low quality on financial reporting was due to many state assets, which were not recorded or those recorded state assets were based on the historical cost and not yet valued at the fair value. In addition, ministries and agencies were at an early stage in managing the state asset. The DG State Asset Management was targeting state asset reporting, revaluation and utilisation, even though

regulations regarding the state wealth were still in the development. The program of asset revaluation of all ministries and institutions was begun in 2008, and in the IMOF, the revaluation program had been initiated since July 2007. The strategic outcome for the theme was to gather data on the number and value of state assets as well as optimising the utilisation of those assets (IMOF, 2007b).

IMOF Strategy Map: capital market and Non-Bank Financial Institution (NBFI) supervision theme

The strategic goal of the IMOF Strategy Map under the Capital Market and Non-Bank Financial Institution (NBFI) Supervision Theme (Figure 3.9.) was to develop prudent and professional supervisory authority over the capital market and non-bank institutions in order to improve the functioning of the capital market and non-bank financial institutions as prime movers for the national economic resilience and global competitiveness.

The IMOF's active involvement in the development of a fair capital market was done by supervising capital market transactions including those of non-bank financial institutions. The IMOF introduced policies to promote stability in the financial sectors through protection for the players, law enforcement, improving the role and quality of the capital market players, and improving coordination among institutions responsible for managing the Indonesian financial sector. The development of the financial sector was directed towards creating market infrastructure, widening investment and financing alternatives, and improving coordination among responsible institutions within the Indonesian financial sector. Sustaining stability while developing the financial sector was intended to improve society's trust for the capital market and non-bank financial institution in Indonesia.

Figure 3.9. The Capital Market and NBFI Supervision Theme Strategy Map
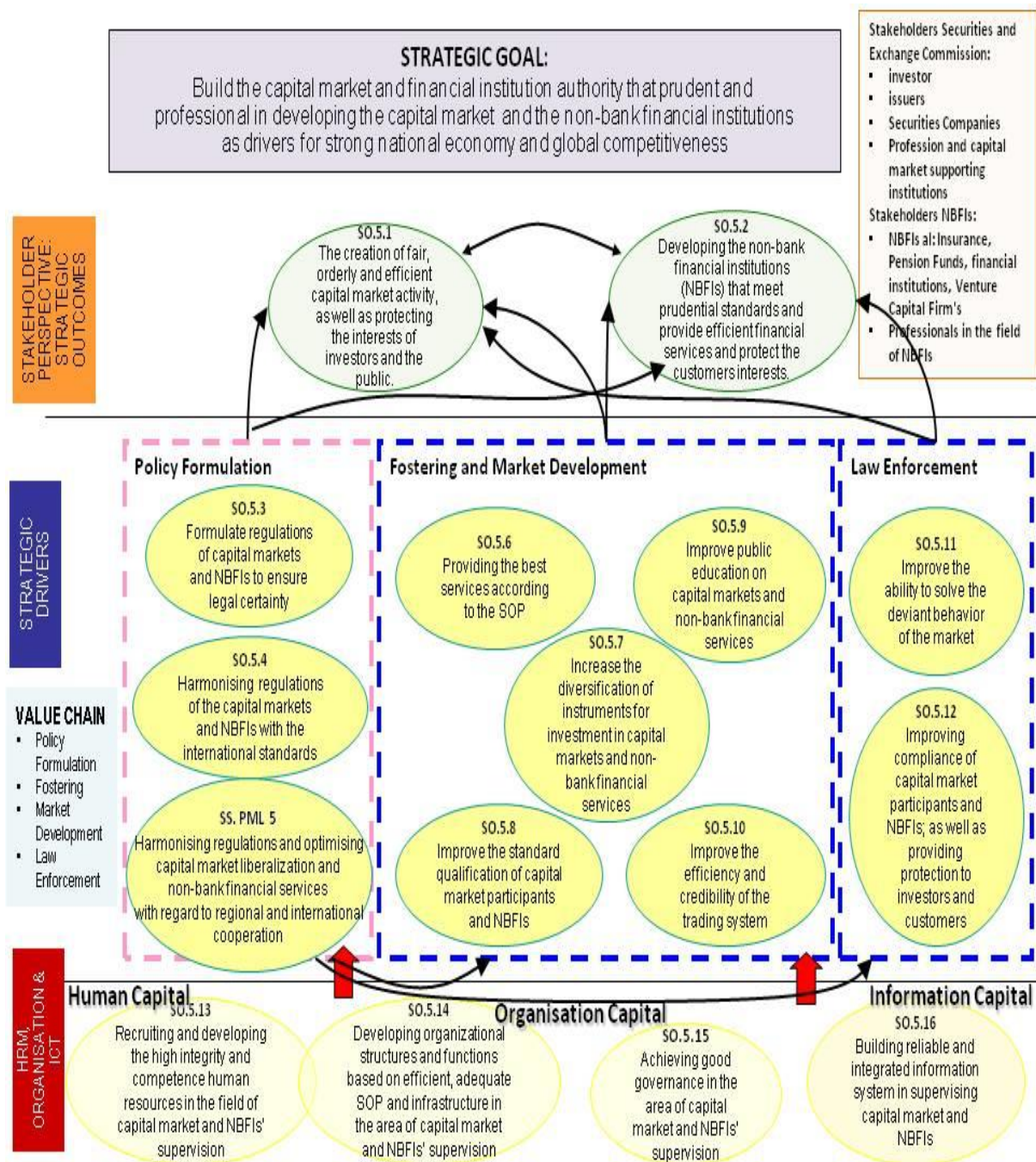
Source: IMOF, 2007b

In summary, each of the five IMOF-wide strategy maps employed the three perspectives from the modified BSC approach: stakeholder strategic outcomes perspective, strategic drivers' perspective and organisation, learning and growth perspective (managing HR, organisation and IT). In the learning and growth perspective, there were three categories of strategic objectives: human capital, organisational capital and information capital.

Some differences were apparent between the strategy maps. For instance, the state wealth management theme, the state financing theme and the capital markets and non-bank financial institutions supervision theme seemed to stand alone. This was probably due to the uniqueness of the duties and functions of the three structural units under each of the IMOF portfolios. Furthermore for the capital markets and non-bank financial institutions theme, started in 2013, these responsibilities should have been moved to the management of the new Indonesian Financial Service Authority (Otoritas Jasa Keuangan [OJK]) as an institution outside the Ministry of Finance and the Indonesian Central Bank (IMOF, 2010).

Strategy implementation stage: cascading the Balanced Scorecard

The process of implementing the IMOF-Wide Strategy Map can be seen in Figure 3.10. The BSC implementation process in the IMOF was initiated in July 2008 and aimed to prepare the first performance report based on the BSC approach for the ministerial meeting in April 2009. Several activities that had been designed were the improvement of the manual for the IMOF-Wide Strategy Map and the process of cascading it into lower level strategy map. The IMOF-wide strategy map was cascaded down to all levels in every unit under the IMOF. A set of strategy maps at the level Echelon I was called the IMOF-One and at the level Echelon II was called the IMOF-Two Strategy Map. Software procurement was targeted for September 2008. The process of the BSC automation was also done from September to December 2008. The alignment and integration of the whole strategy map monitoring system, including the IMOF-wide and IMOF-one and IMOF-two strategy maps, were concurrently improved under two trial runs of the leadership performance evaluation reporting until the BSC was fully developed and ready to be presented on the first quarterly meeting of the performance monitoring and evaluation chaired by the Finance minister in 2009.

Figure 3.10. The BSC Implementation Project
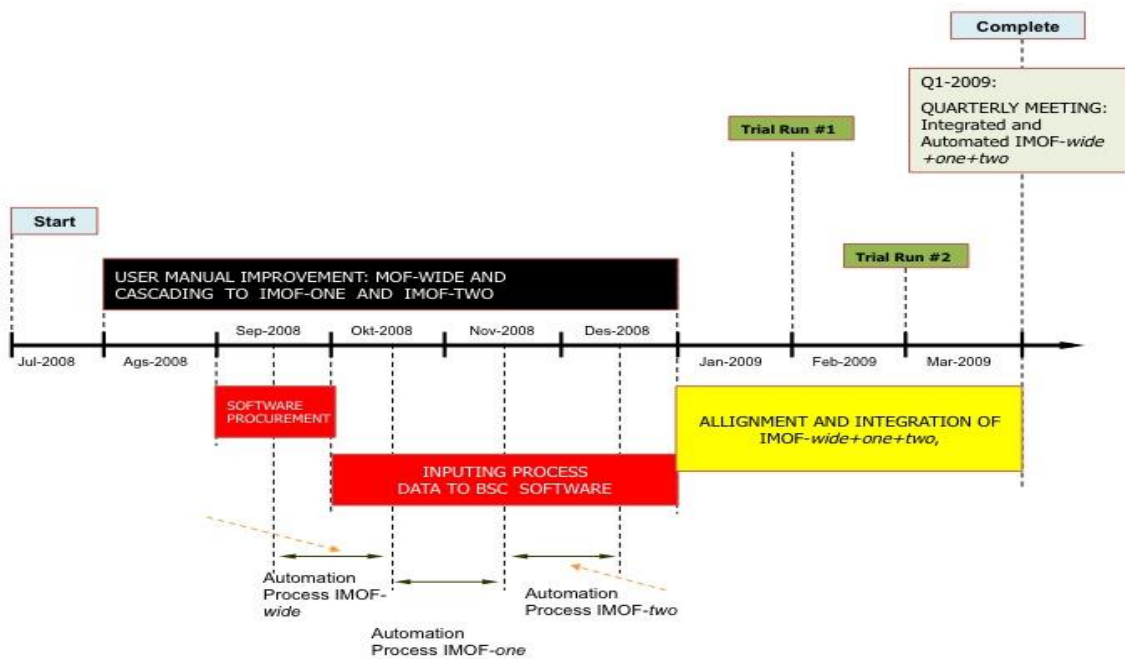
Source: IMOF, 2008c

The core stage in implementing Balanced Scorecard for the whole organisation was the cascading project including the identification of KPIs over the whole organisation, to all levels and individuals. The BSC was used to translate the IMOF's vision and mission into strategic objectives. The BSC can be also regarded as a tool for translating strategies into strategic objectives. Strategic objectives were the main ingredients of the IMOF's BSC design. The strategic objectives became the basis for the development of the KPIs and targets. Activities were initiated and resources allocated to achieve the targets. All results in the implementation stages were to be monitored and the data used as feedback in reviewing the strategy.

Each unit in the IMOF was required to define their own KPIs in line with the IMOF-wide strategy map. The Finance minister asked the quarterly meeting at the top level to discuss the process of BSC development and evaluate the performance achievements. Targets indicated performance results that were intended to be achievable. The performance had to be reported from the lower level manager up to the top level by comparing the performance results with the targets. Thus, the organisation would get information about activities that needed to be improved.

Figure 3.11. shows how the BSC cascaded down from the IMOF-wide level to the IMOF-one level. The process had three stages. First, strategic objectives and KPIs were defined at the top leadership meeting with the Finance minister was used to define the draft of the Echelon I strategy map with KPIs in each strategic objectives.

Figure 3.11. The Cascading Process of the Strategy Maps
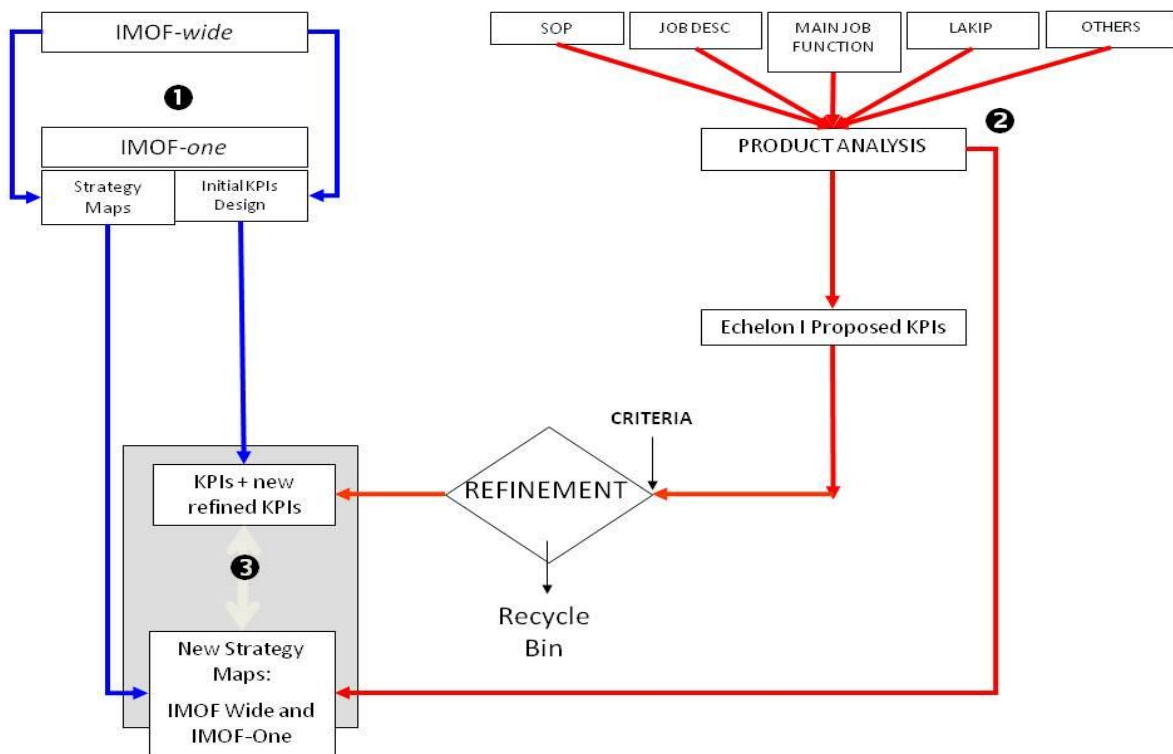
Source: IMOF, 2008c

Second, Each Echelon I employed product analysis to define Echelon I performances. Product analysis is a process to determine the key public services based on standard operating procedures (SOP), the new job description, the main job function based on rules and regulations, the performance output or outcomes based on LAKIP and other material or report such as minutes of meetings associated with the strategic goals and new targets. The results of the product analysis were the drafts of proposed KPIs from each Echelon I that were ready for the refinement stage.

Finally, the refinement process of the KPIs and the strategic objectives was done based on criteria that was built to align among KPIs at the level of IMOF wide strategy map with the proposed KPIs from each Echelon I. Results of refinement were the agreed KPIs as basis for

the performance contract with the minister under the improved strategic objectives as well as the new or modified IMOF wide strategy map that was done for three times as can be seen in Appendix D, E and F. As a result of the refinement process, improvement was made by focusing the original 5 strategy maps at the IMOF-wide level with 82 strategic objectives and 206 KPIs, to one executive summary of the strategy map, with only 16 strategic objectives and 29 KPIs, at the IMOF-wide strategy map level (See Appendix F). Selected strategic objectives and its KPIs would then be visualised in the strategy map.

The same method basically was used in cascading the IMOF-One strategy maps to the IMOF-Two strategy maps and down to the IMOF-Three for each Echelon III strategy map level. The Strategy Management Office at the headquarters and KPI managers unit were in charge to sort this whole process out until the cascading process can be accepted and proposed for approval in the ministerial meeting.

The strategy monitoring and evaluation stage: BSC automation for reporting

At the IMOF-wide strategy map level, several strategic objectives were to be managed and measured using several key performance indicators (IMOF, 2007b). As a manual system for monitoring KPIs would be labour-intensive and time-consuming, a software application was developed. Benefits from automation included: minimizing the use of paper for performance data collection and reporting; controlling access to the unit performance data; improving the quality of BSC reporting*;* and promoting collaboration and knowledge-sharing for effective strategy monitoring and evaluation. In addition, the BSC software could also be used to manage and verify the causal relationship among strategic objectives and KPIs across organisational units while also providing support for improved strategy map design. The software was also intended to enable the IMOF to make use of performance data on a daily basis.

The results of several performance monitoring and evaluation activities were displayed in several ways. All KPIs were labelled with a colour of either green or yellow or red, depending on the performance achievement following formula illustrated in Table 3.4., the KPI achievement status. There were three types of KPI polarisation based on the typical target: 'maximise' means that KPIs aimed at meeting the stated target level or even higher, for example, KPIs that measure the state revenue; 'minimise' means that KPIs aimed at stated target level or lower, for example, KPIs that measure the level of corruption; and 'stabilise'

means that KPIs aimed at a certain target of activities or event, for example, KPIs that measure the activity of customer satisfaction survey project each year. Each colour was used to label the status of the performance outcomes of each strategic objectives based on the achievements of KPI targets based on its KPI polarisation type. For example, for the 'maximise' type of KPIs, meeting less than 80% of the target means that the KPI status would be red; if the target was achieved at 100% or more, the KPI status would be green; but if the target was reached between 80% to 100%, the KPI status would be yellow. The process of performance reporting at the IMOF-wide level occurred as follows. First of all, leaders at the Echelon I level established the targets for each KPI under the strategic objectives in the strategy map. Second, the measurement of KPI achievement status was done by KPI managers under each Echelon I. Third, KPI achievement status (traffic light) was determined using the KPI polarisation approach (see Table 3.4.).

Table 3.4. KPI Achievement Status

Polarisation			Status
Maximise	Minimise	Stabilise e	
X<80%	X>120%	X<80% or X>120%	**Red**
80%≤X<100%	100%<X ≤ 120%	80%≤ X <90% or 120≥X>110%	**Yellow**
X≥100%	X ≤100%	90% ≤ X ≤110	**Green**
Source: IMOF, 2008c			

Through the whole process of KPI planning, management, regular reporting and evaluation, sustainable performance improvement can be expected based on this process. All KPI status and available information regarding the strategic performance outcomes were mapped out on the dashboard in the office of the Finance minister. The dashboard was the online real time screen that projected out the status of KPIs and all necessary information about the IMOF key performances so that the minister could scrutinise any performance issues and trace them back to the respective Echelon I units who responsible to deliver the performance outcomes. The dashboard also used in regular ministerial meetings of performance monitoring that could assist IMOF leaders to identify any necessary steps to adapt with change and identify

the necessary leadership response in form of providing the new organisational strategic directions through the BSC system.

The Outcomes of the IMOF Bureaucratic Reform

Three major outcomes of the IMOF bureaucratic reform during 2007-2009 can be identified: improvement in public service delivery; improvement in customer satisfaction; and improvement in the IMOF's governance. In terms of improvement in public service delivery, the IMOF had modernised its offices and improved its business processes for delivering public services, particularly in taxation, customs and treasury offices throughout big cities in Indonesia (see Tables 3.5. and 3.6.).

Table 3.5. Examples of the Business Processes Reform in DG Tax

Public Service	Before	After
Tax Payer Registration Number	3 working days	1 working day
VAT Number (Taxable Business)	7 working days	3 working days
Tax Refund Payment	1 month	3 weeks
Tax Appeals	12 months	9 months
Exemption from Income Tax on Imports	1 month	3 weeks
Excemption from Income Tax on Imports for Each Transaction	1 month	5 working days
Reduction of Property Tax	3 months	2 months

Source: IMOF, 2007d; 2008c

The improvement of business processes involved 35 initiatives in 2007 and many more in 2008 particularly on cutting red tape and improving public service delivery. In terms of HRM, the IMOF developed the assessment centre to introduce an open and competency-based promotion system, and improved communication and coordination within directorates and agencies under the Finance minister's portfolio (IMOF, 2009). In addition, there was an initiative to match remuneration to skill requirements and responsibilities, and to align the pay structure more closely with that of the private sector.

Table 3.6. Examples of the Business Process Reform in DG Customs and Excise*

Public Service	Before	After
Customs Priority Channel	16 Minutes - 3 Hours 56 Minutes	20 Minutes (if without physical inspection)
Customs Green Channel	4 hours	30 minutes
Customs Red Channel	48 hours	12 hours 30 minutes
Export Customs Services	4 hours 7 minutes	• Without Physical Inspection: 1 Hour • Standard Physical Inspection: 3 Hours • Non-Standard Physical Inspection: 4 Hours
Refund of Customs Duties	No clarification yet	Maximum 30 working days

Source: IMOF, 2007d; 2008c (* in airport and sea port)

The IMOF bureaucracy reform was associated with improvement in customer satisfaction (IMOF, 2008c). Table 3.7. shows clients' satisfaction as measured by the University of Indonesia in 2007 and 2008. There was more than 10% improvement of satisfied customer on average public service delivery based on six Echelon I units under the ministry portfolio and based on respondents in six big cities in Indonesia. The Treasury offices scored the highest satisfaction level at 84%, while the Budget Office scored the biggest improvement in client satisfaction with more than 24% increase from 2007-2008. The Capital Market and Non-Bank Financial Institution Supervisory Agency recorded the lowest unsatisfied level at only 1.6% of the respondents in 2008. Overall, the level of satisfied stakeholders was increasing from 63.6% to 74.4% during the implementation of the IMOF reform program 2007-2008 (IMOF, 2008c).

Table 3.7. Customer Satisfaction Based on Selected Echelon I Unit

IMOF UNIT	UNSATISFIED		LESS SATISFIED		SATISFIED	
	2007	2008	2007	2008	2007	2008
Tax Office	6.4	5.1	30.8	19.6	62.8	75.3
Custom & Excise	11.6	6.9	34.2	29.8	54.2	63.4
Budget Office	10.0	7.1	53.3	31.6	36.7	61.3
Treasury Office	3.6	3.7	20.4	12.3	76.0	84.0
State Asset Office	9.9	5.1	22.2	15.7	67.9	79.2
Capital Market	2.4	1.6	32.9	18.6	64.6	79.6
Total	6.9	5.1	29.4	20.4	63.6	74.4

Source: Indonesia University (2008) in IMOF, 2008c

The results of the customer satisfaction survey based on the cities (Table 3.8.) showed that during 2007-2008, the IMOF public services offices in Jakarta and Balikpapan scored the highest improvement in the proportion satisfied clients with 17.4% and 9.4% compared to other four big cities in Indonesia. Even though overall there was a decrease in the proportion of the unsatisfied customers (1.8%) and less satisfied customers (9%), there were slight increases in Medan and Surabaya of 1.1% and 0.3% respectively in the proportion of the unsatisfied customers. Meanwhile, for most of other big cities such as Jakarta, Balikpapan and Makassar the proportion of unsatisfied customer were decreasing.

Table 3.8. Customer Satisfaction Based on City

CUSTOMER SATISFACTION BASED ON CITY (%)						
CITY	UNSATISFIED		LESS SATISFIED		SATISFIED	
	2007	2008	2007	2008	2007	2008
Jakarta	9.8	7.1	39.8	25.4	50.4	67.6
Medan	2.9	4.0	25.7	21.7	71.4	74.4
Surabaya	1.4	1.7	25.7	19.2	73.0	79.0
Balikpapan	11.9	4.3	8.3	6.5	79.8	89.2
Makasar	5.2	3.5	20.6	16.9	74.2	79.6
Batam	NA	5.4	NA	19.8	NA	74.8
Total	6.9	5.1	29.4	20.4	63.6	74.4

Source: Indonesia University (2008) in IMOF, 2008c

To ascertain the outcome of the IMOF public service delivery satisfaction level in year 2009, an independent researcher team from Bogor Agriculture Institute (Institute Pertanian Bogor [IPB]) was contracted to undertake a customer survey. As shown in Table 3.9, based on the broad trends in customer satisfaction shown by the data from 2007-2009, the IMOF performance was improving. Even though there was a reduction in the level of customer satisfaction by 3% to 71.4% in 2009. However, during 2008-2009, there was also reduction in the proportion of unsatisfied clients from 5.1% to 4.7%.

Table 3.9. Comparative Customer Satisfaction Survey Result
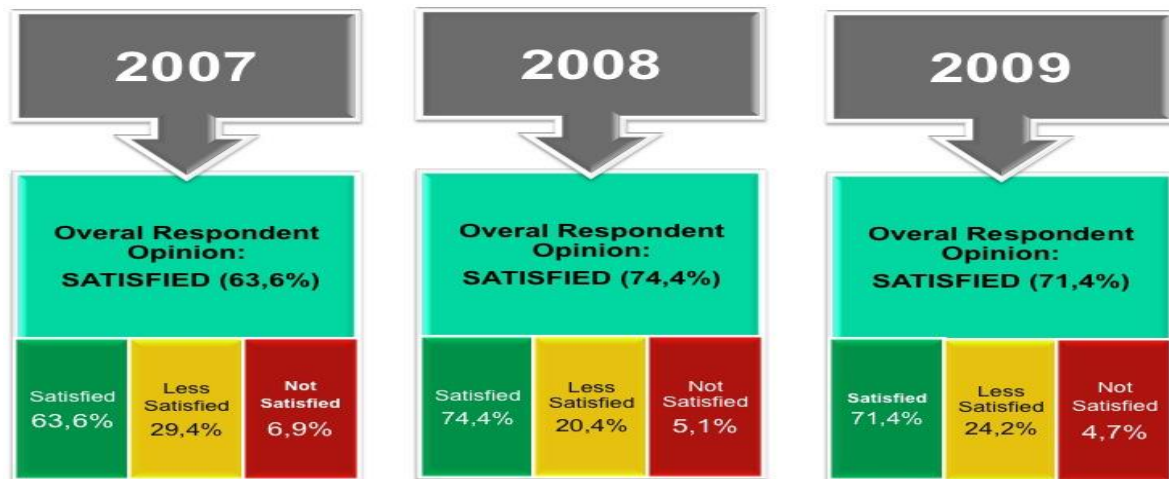
Source: IMOF, 2008c; 2010

In terms of improvement in governance, the implementation of the BSC in the IMOF progressed to the stage of the development of the annual performance contracts between the Finance minister and all Echelon I's. In the first quarter of 2009, in the performance evaluation and monitoring meeting led by the Finance minister, the IMOF leadership committed to progress the BSC implementation by cascading the IMOF strategy down to the individual level. The Finance minister wanted to make use of the BSC reporting as part of the individual performance assessment and development. Moreover, in 2009 the Finance minister started to have quarterly discussions about the performance dashboard to examine KPI achievements under various strategic objectives. The performance's dashboard became a leadership tool for performance evaluation and alignment of strategies to the organisation's mission and vision as set out in the IMOF strategy map (IMOF, 2008b). In addition, each month in the top leadership board meeting, the head of the Fiscal Policy Office gave an economic outlook using the dashboard of the head of the Fiscal Policy Office that can also be projected out to the Finance Minister's dashboard in the monthly ministerial meeting.

Despite the negative predictions by many scholars and practitioners about Indonesia's future after the global financial crisis (GFC), economic indicators showed that Indonesian economy to be resilient and maintaining economic growth (IMOF 2010). Contributing to this success was the leadership commitment to reform in the IMOF and better synergy between fiscal and monetary policy in Indonesia (IMF, 2008; Basri & Rahardja, 2010). It could be argued that

the performance improvements brought about by reform in general and the BSC in particular played a role in guiding Indonesia safely through the global financial crisis.

Lesson Learned from the Implementation of the BSC (2009-2013)

Before 2007, an Echelon II unit called the Bureau of Organisation and Governance (Biro Organisasi dan Tata Laksana [Biro Organta]) under the Secretary General's Office managed the IMOF strategy and performance based on SAKIP and tending to utilise a bottom-up approach for strategic performance management. The IMOF did not have a unit that specifically developed and evaluated medium and long-term strategies for the ministry. In general, the Indonesian public sector organisations' strategy was developed based on the 'strategy follow structure' principle. Each ministry had to develop a strategy documents every five years as a base for the annual budget documents. The budget policy contained the compilation of each ministerial budget policies. If there were any moves for harmonisation from either the coordinating ministers or *Bappenas*, they were not substantial. Furthermore a strategy from a ministry would contain a compilation of each Echelon I's vision, mission and strategy as well as programs and activities under the ministry (see Appendix D). The preparation of strategy for the Echelon I units used to be undertaken by ad hoc teams representing each unit Echelon II below. Strategy was prepared in stages such as strategy for unit Echelon II was a compilation of the strategy of the whole Echelon III below. Thus, a Ministry strategy was just a compilation of strategies from each Echelon I and the subordinate units in the IMOF.

There are some advantages and disadvantages with regard to the traditional pattern of the drafting strategy for the ministries in Indonesia. On the one hand, strong autonomy was granted to all Echelon I to think of long-term strategies, their duties and functions as well as identifying the required budget. On the other hand, from the public perspective, all Echelon I acted alone without synergy among them thus making a whole of ministry policy or strategy for better public services impossible to achieve.

When the Finance minister endorsed the idea of implementing the BSC in 2007, she initiated a change in the process of preparing a strategy and cascading it from the top down to Echelon III level and changing the strategy development process from 'strategy follow structure' to 'structure follow strategy' approach. In the implementation, the whole process started with intensive strategic meetings involving the Finance minister and all Echelon I in the IMOF

guided by professional consultant and the head of TRBP (the Centre of the Bureaucracy Reform Team). The TRBP was established on an ad hoc basis in the IMOF headquarters and was led by ex-officio Secretary of the Ministry of Finance. The daily head of the TRBP was an Echelon I level or the Finance Minister's expert staff supported by some ad hoc staff at Echelon II levels and below as operational staff for managing the reform process in the IMOF. The strategic meetings were held in order to create the first five themes of the IMOF strategy maps that contained updated IMOF vision and mission, key strategic objectives and key performance indicators that should be cascaded down and measured on the regular basis to improve organisational performance outcomes.

The lesson learned from the implementation of the BSC in the IMOF among other things can be explored based on three main concerns as follows: maintaining the commitment of leadership to cascade the BSC down to the individual level; developing capacity for managing strategy; and dealing with the whole Indonesian bureaucracy.

First of all, the implementation of the BSC in the IMOF depended on how successful the IMOF leadership to maintaining the commitment to cascade the BSC down to the individual level. The implementation of BSC was the last pillar of the IMOF Bureaucratic Reform 2007 agenda and managed under the TRBP. For the purpose of cascading the strategy map down to all units and individual in the IMOF, a strategy management office (SMO), at Echelon III level under Pushaka was established. The SMO was in charge of supporting the TRBP of coordinating all KPI managers appointed in every unit Echelon I in the implementation of BSC in the IMOF. In addition, the TRBP's role had been central in advancing reform across the 12 units in the IMOF. However, after the dissolution of TRBP as an ad hoc team, particularly on the task of developing and managing the IMOF strategy, the quality in managing strategy and the whole of IMOF performance came in the hands of the SMO under Pushaka and all KPI managers whose potential structural weaknesses as being an Echelon II and III level under the Echelon I units in the IMOF.

Second, the lesson learned from the implementation of the BSC in the IMOF was about the importance of improving the capacity of personnel and organisation in managing the IMOF strategy in line with the call for any government to be able to face 21st century issues such as the global financial crises (GFC) in 2008. The role of the IMOF was important in managing policies that support the economic growth for the country. Thus, improving organisational capacity to monitor and come up with the effective strategy had always been encouraged.

Pushaka that was appointed as the strategy management office for the ministry had been central in supporting the technical matters of the BSC implementation in the IMOF. However, without continuous support from the top leadership, Pushaka would have only limited power with regard to the structural as being an Echelon II in managing the whole IMOF strategy. Consequently, the process of responding the call for further reform, aligning the whole IMOF strategy and eliminating flaws in the implementation of the BSC demanded continuous capacity building. In addition, the capacity to coordinate and develop synergy among Echelon I units in the IMOF was also the key concern that had been properly addressed knowing that in the bureaucracy each Echelon I hold the most authority of their own budget allocation and the long term strategy direction for their unit under the ministry.

Third, the lesson learned from the implementation of the BSC in the IMOF was about how the cabinet managed the whole Indonesian bureaucracy strategy. Knowing that the IMOF role was central in allocating budget for the whole of government bureaucracy reform, the approach that Dr Mulyani used to promote the whole of IMOF leadership roles for reform had been relevant in promoting effective and efficient policy coordination and synergies in the whole-of-Indonesian government public policies. Several key information in the Finance minister's dashboard such as economic outlook and tax revenues performance were projected out to the national president's dashboard was the early stage in better management of the national strategic performance management based on the BSC approach at the cabinet office level. In addition, the process of developing the national strategy planning had been strengthened by *Law 25/2004* on the long-range national development plan as well as the Presidential Regulation No 7/2005 on the Medium Term Development Plan. These regulations were important legal basis in developing and managing the whole-of-government strategic performance management. However, learning from the benchmark from the BSC implementation in the whole of government of the Singapore (IMOF, 2008d), the development of the whole-of-Indonesian-government performance management still required top government leadership involvement and the readiness of the HR and organisational capacity in all ministries and agencies.

Nevertheless, the result of the pioneering reform in the IMOF has been promising. It is necessary to explore the lesson learned from the process of reform particularly in improving performance and governance through implementation of BSC as the IMOF strategic performance management system during 2007-2009. Thus, chapters 4 and 5 particularly

focus on revealing the perspectives of IMOF leaders and KPI managers in the process of implementing BSC for promoting better strategic performance management system for the IMOF.

Conclusion

The influence of the NPM paradigm in the process of reforming Indonesia bureaucracy was apparent, particularly in reforming the Indonesian public financial management. However, there were four systemic problems in the Indonesian bureaucracy that challenged the government leadership particularly before 2006. These were: lack of strategic thinking, poor HRM strategy and practice, weak accountability for performance outcomes and poor governance leading to lack of citizen focus. Consequently, the impact were obvious in form of the inefficiency and ineffectiveness in public administration and decision-making processes, poor public sector performance at organisational and individual level and lack of integrity, sustainability and equity in public sector management and reform.

The IMOF reform as a pioneer for the Indonesian bureaucratic reform during 2007-2009 has been successful in improving the IMOF performance outcomes, public service delivery, and good governance. Driven by responsive and professional leadership practices in public financial management, IMOF leadership contributed to Indonesia economy which was proven to be resilient in maintaining economic growth in the midst of the Global Financial Crisis 2008-2009 (IMOF 2010; Basri & Rahardja, 2010). One obvious achievement was the implementation of the BSC as the IMOF strategic performance management system since 2007. However, the bureaucratic reform in Indonesia was in the developing stage in improving the whole-of-government performance outcomes. This chapter provided background on the importance of studying the role of leadership in the IMOF to cope with the systemic problems in the bureaucracy and pioneered the reform in the Indonesian public sector, particularly on implementing the strategic performance management system based on the BSC approach. With the BSC as a leadership tool to design and evaluate strategy and key performance indicators based on the balanced perspectives to improve performance outcomes, the result of the bureaucracy reform pioneered in the IMOF has been promising.

Chapter 4
Improving Performance in the IMOF:
Perspectives from the Leaders

This chapter presents data collected during 2006-2011, particularly interview data gathered between December 2010 and March 2011. The chapter reports and comments on the IMOF leadership's perceptions regarding the implementation of the BSC in terms of performance improvement. It begins with a brief profile of the IMOF leadership as it was in 2007, and the Finance minister's perception on performance is also explored. Next, there is a discussion of the leaders' views on performance improvement obtained from the responses to nine research questions (See Appendix A) that were developed using the conceptual framework discussed in Chapter 2. Thus, the focus is on the four themes of the framework: leadership effectiveness, strategy and HRM 'fit', performance management system and performance governance. The chapter concludes with an overview of the leaders' perspectives.

As described in Chapter 1, the semi-structured interviews focused first on the leaders' perspectives, and secondly on the KPI Managers' perspectives on performance improvement. The leaders were from the top executive level of the IMOF (Finance Minister and Echelon I levels). The KPI Managers' perspectives were represented by senior officials in the IMOF's strategy management office and all KPI managers in the IMOF who were engaged in the daily activities of implementing the BSC between 2007- 2011. The interview results of the second category (KPI Managers) are presented in Chapter 5.

The IMOF Leadership

In Indonesia, the Finance Minister is the head of the Department or the Ministry of Finance. Under the Indonesian republican and unitary system of government, the Finance Minister is appointed by and is directly responsible to the President, and, he/she is a member of the cabinet. Within the IMOF there are 12 structural units headed by Echelon I personnel including the Inspectorate General, Secretariat General, and 10 other Echelon I members namely: the Directorate General (DG) of Budget, DG Tax, DG Customs and Excise, DG Treasury, DG State Asset Management, DG Fiscal Balance, DG Debt Management Office, Capital Market Supervisory Agency and Financial Institution Fiscal Policy Office and the

Finance Education and Training Agency. The Minister also has 8 Expert Staff at the Echelon I level.

Figure 4.1. IMOF Organisation Structure 2009
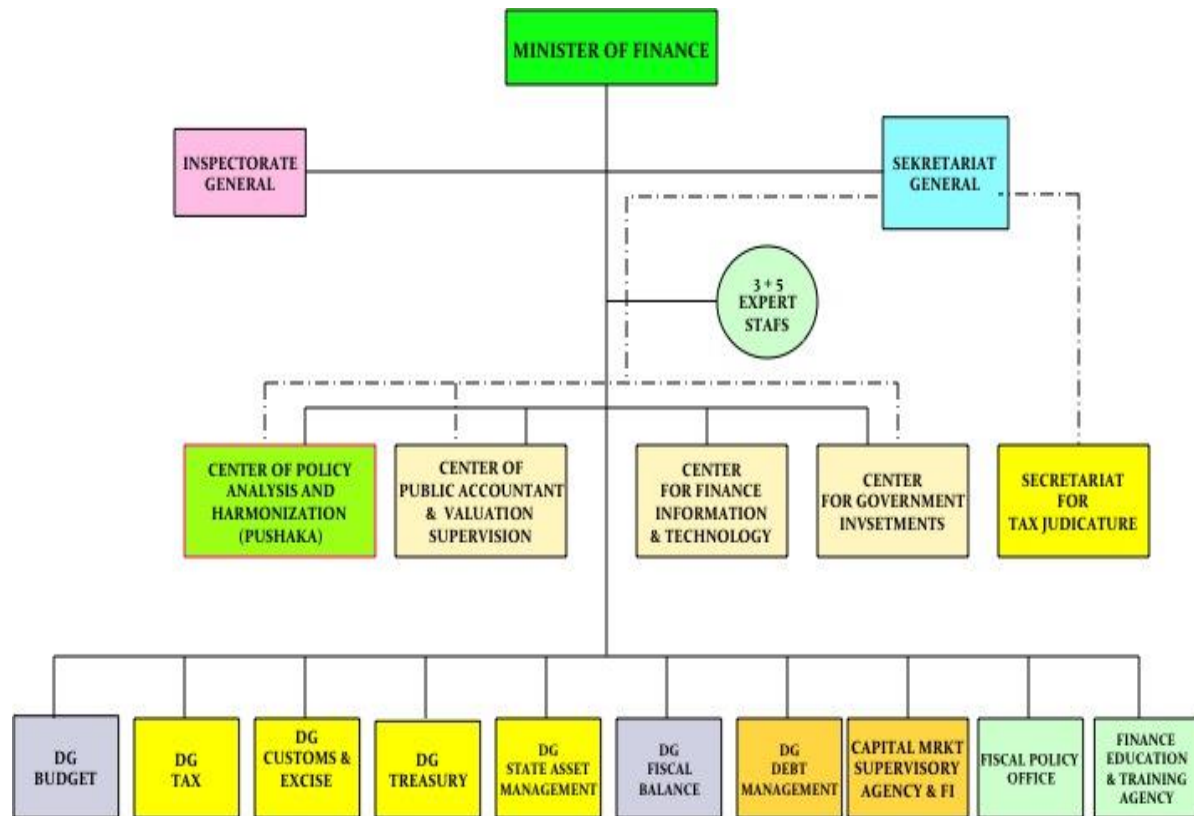
Source:IMOF, 2008c; 2009

The initiative to implement the BSC in the IMOF was proposed by the Centre of Bureaucracy Reform Team or *Tim Reformasi Birokrasi Pusat'* (TRBP) chaired by the secretary-general of the IMOF, and with two Echelon I acting as the 'daily team leaders', Mr. Marwanto Hardjowirjono (Finance Minister Expert Staff in the field of State Disbursement) and Mr. Eddy Abdurrahman (Finance Minister Expert Staff in the field of State Revenue). The Indonesian Finance Minister, Dr Sri Mulyani Indrawati, endorsed the implementation of the BSC as a new approach for managing performance in the IMOF at the ministry's leadership meeting in December 2007. She also included an additional role specifically to lead the implementation of the BSC in the IMOF. The minister appointed Pushaka, an Echelon II unit acting as the Finance Ministry delivery unit, to become the IMOF strategy management office for the BSC. As the head of the ministry, Dr Mulyani committed to lead a series of

meetings on developing strategy and monitoring and evaluating the process of transforming the IMOF's current performance management system.

The Minister's perception on performance

After 2007, Minister Mulyani's commitment to improving performance became clear. On several occasions, she repeated her commitment to engage in the reform of the bureaucracy, but particularly to measure and improve the performance outcomes of the reform.

> *What we want is every day or every year, to feel that there is an improvement, and not only that we feel it but also that we have achieved it in terms of indicators that can be published.* (Finance Minister, Dr Sri Mulyani Indrawati, quoted in the signing of the Performance Contract with all 12 Echelon I leaders, 7 April 2009).

On the same occasion, the minister asked for a change in the ministry's leadership paradigm. She wanted to promote a performance-based strategy in response to the public's disappointment with the existing situation, and expressed the hope of eradicating corruption in the public bureaucracy: "Let us work based on trust and answer the question and the public disappointment with better performance outcomes" (SMI, 2009).

From these ministerial statements, it can be concluded that Dr Mulyani expected the IMOF to be able to measure its key performance indicators (KPIs) and show an improvement in them. She believed the reform should result in better organisational accountability because it was based on clear performance outcomes. This would improve the public's trust in the bureaucracy.

Leaders' views on performance improvement

The results of the interviews are based on interviewees' responses to the research questions listed in Appendix A. These questions focused on four themes identified in the conceptual framework that relate to leadership roles for improving performances outcomes. Those themes are: leadership effectiveness, strategy and HRM 'fit', performance management system and performance governance. In order to capture the leaders' perspectives on leadership roles in the implementation of the BSC, nine questions were asked to the first group interviewees (see Appendix A). The interviewees' responses to those questions are explored in the rest of this chapter.

Factors that contributed to the successful implementation of the BSC

The first question asked interviewees to identify factors that contributed to the successful implementation of the BSC in the IMOF. As shown in Table 4.1., leadership was perceived to be the key factor for the successful implementation of the BSC in the IMOF.

Fifteen leaders, 78.9% of the total interviewees, identified the importance of leadership in improving performance. In addition, almost 60% of the total interviewees said that strategy was also a significant factor in the success of improving performance. Furthermore, another two influential factors identified were the performance management system (PMS) in terms of using the BSC as the primary tool for it (as mentioned by 21.1% interviewees), and performance governance in terms of the process of implementing high ethical standards through the BSC system (as mentioned by 31.6% of interviewees).

Leadership seemed to creep into the categories of responses. In the interviews several executives pointed out that IMOF leadership under the Finance minister, Dr Sri Mulyani, with her very strong personal motivation and integrity, had driven change in the organisation and engaged the bureaucracy in the reform agenda. As one of those Echelon I interviewees explained:

> *The charisma of our minister became the driving figure, in the briefing and visits to the area. In line with our minister's direction, I used her figure as an example that we should follow (C112HP).*

Table 4.1. Factors That Contributed to the Successful Implementation of the BSC

BSC Key Success Factors	Link to the framework	N	% of total respondents
Top leadership willingness and involvement	Leadership Effectiveness	7	78.9%
Personal passion to change and do the best		3	
A role model from the top		4	
Leadership enthusiasm		1	
Clear organisational vision and mission	Strategy & HRM 'fit'	2	57.9%
Commitment from managers at different levels		4	
HRM & infrastructure for strategy monitoring		5	
Top-down approach on implementing the BSC	PMS	3	21.1%
Discipline performance evaluation		1	
High standard of ethics in implementing the BSC	Performance Governance	6	31.6%

In terms of developing and implementing new IMOF strategy under the BSC approach, one of the interviewees described the significant leadership role of the top leaders and leaders at other levels in focusing the strategy for the organisation as follows:

> *When the minister asked to gather all Echelon Is to meet together, that was the beginning of ownership of strategy development. But we need to redirect all Echelon I strategy towards the same strategy focus and the one who can do it is the leader*. (C107MH).

When asked further about why commitment of leaders at all levels was necessary, one interviewee who was involved in leading reform in the IMOF mentioned that in terms of numbers, the total of Echelon II and Echelon III leaders represented 35% of total Echelon staff in the IMOF. Furthermore, most of them also held responsibility for submitting budget planning documents and executing the budget disbursement and reporting. Thus, with regard to the IMOF strategy development in 2007, all interviewees were directly involved in developing it. This was verified in the five-theme strategy maps based on the BSC approach namely: state revenue, state disbursement, state financing, state asset management, and capital market and financial institution strategy maps. In the implementation stages, and based on the board decision at the end of 2007, the minister appointed Pushaka to become the ministry strategy management office to cascade and implement the BSC across the 12 units under the Ministry. The former head of Pushaka explained that

> *IMOF performance is reported on a quarterly basis to the Minister using the BSC format. A 'good performance' is achieved when the organisational objectives that are measured by Key Performance Indicators (KPIs), can be labelled as 'green', which means the unit has achieved more than 80% of its KPIs' target* (C101AS).

In regard to implementing the BSC in the IMOF, one Echelon I leader confirmed that leadership was also needed to lead the process of implementing the BSC which was a new approach to performance management in the Indonesian public sector, by saying:

> *Leadership commitment is very important in implementing the BSC, specifically that all medium and low level Echelons should not just enter the report for the sake of formality in the midst of their busy hours doing operational jobs.* (C112HP).

With reference to promoting good governance in the BSC system, another Echelon I interviewee confirmed the importance of the leadership role in selecting good governance principles and installing them in the IMOF through the BSC system. During the process of the BSC implementation as part of reforming the IMOF bureaucracy, he said:

> *Leaders need to have a sense of urgency. In 2007, we started to look at the survey about corruption level in our unit. We were always in the big 5 of the most corrupt institutions in Indonesia, so I personally decided 'yes', this is the best time to change* (C103TS).

From the findings above, it can be concluded that leadership was perceived by the Echelon Is to be the most significant factor in the implementation of the BSC in the IMOF. It was seen to be about both person and process. In terms of person, leadership involved the top-level persons (minister and all Echelon I's) and lower level executives being committed to reform and setting examples as a means of driving change in the organisation. Leadership was also seen by interviewees in the process of setting strategy directions, establishing KPIs, measuring performance and monitoring it, and ensuring that objectives were achieved. The next section of this chapter discusses the perspectives of IMOF leaders categorized into four themes: leadership effectiveness, strategy and HRM 'fit', performance management system (the BSC approach) and performance governance.

Leadership Effectiveness

As the BSC was such a new approach for the IMOF, it was assumed that the leadership needed to play several roles in the process. To identify what these were, Question 2 asked:

"What role did leadership play in the implementation of the BSC in the IMOF?". A total of 19 interviewees provided responses to this question. All interviewees made points that can be categorised into four leadership roles, namely: personal, organisational, performance and social.

Table 4.2. Leadership Role in Implementing the BSC in the IMOF

Contributing factors (leadership roles)	Link to the framework (leadership mastery) (N)	% of Total respondents
To provide an example or model for the organisation	Leadership effectiveness (personal mastery)	
To follow the top leader's direction		
To be a role model in performance, knowledge, skills, and attitudes	17	89.5%
To be professional and look for networking		
To maintain high commitment towards integrity		
To lead and have a vision, specifically a long-term vision	Strategy and HRM 'fit' (organisational mastery)	
To give followers a support		
To provide motivation		
To determine the right vision and mission	17	89.5%
To drive change		
To nurture the best people for the organisation.		
To be a team player with strong conceptual and technical skills.		
To determine the right strategic objectives and performance indicators	Performance management system (performance mastery)	
To be committed to BSC implementation	6	31.6%
To have personal character that supports the performance strategy		
To create a value system for the organisation	Performance Governance (social mastery)	
To eradicate wrongdoings and unlawful actions	11	57.9%
To improve performance		

Most of respondents mentioned that the two most important leadership roles in implementing the BSC to improve performance were the organisational and personal roles. Table 4.2. shows that 89.5% of the total interviewees regarded these roles as important for BSC

implementation. Smaller but nonetheless significant numbers of interviewees noted the social role (57.9%) , and the performance role (31.6%).

In summary, IMOF leaders believed that successful implementation of the BSC in the IMOF needed good leadership spanning a range of roles to improve the IMOF's performance outcomes. However, personal and organisational roles and skills were judged to be of the greatest importance and were identified by almost all respondents.

Organisational mastery

The most identified leadership role or mastery was organisational. Seventeen out of 19 (89.5%) revealed that organisational mastery refers to determining the right vision and mission, providing followers with support and motivation, driving the strategic and cultural change in the organisation, nurturing the best people for the organisation and being a team player with strong conceptual and technical skills.

Most of the interviewees also agreed on the importance of the leader having the right vision and mission as the first step of implementing the BSC to improve performance. One Echelon I interviewee concluded:

> *Leaders have to begin with determining the right vision and mission. I think leadership is a key determinant for success in achieving the organisation's mission according to the stated vision. Leaders are responsible for determining vision and mission with all their colleagues under their supervision.* (C102MP).

Personal mastery

Personal mastery represents the capability of leaders to provide an example, by becoming a role model to others, behaving professionally, having good networking skills, maintaining a high commitment to integrity and working with heartfelt commitment. These characteristics were identified by seventeen out of nineteen interviewees (89.5%). It is apparent that it was the personal drive and motivation of most Echelon I interviewees that led to the organisational changes. They promoted reform in the bureaucracy, particularly in introducing and managing performance based on outcomes. For instance, several Echelon I interviewees explained that during the reform agenda,

Leaders have a significant role in improving performance, but he or she has also to provide a good example for others to follow.(C117HR).

Performance mastery

Performance mastery, according to 31.6% of the total interviewees, was related to developing the right strategic objectives, through the process of cascading the top strategic objectives down to the individual level. In addition, leaders needed to make sure that the organisation performed well by determining appropriate and challenging KPIs, and by gathering people committed to success. This could be done by leadership involvement in determining whether the KPIs proposed by each unit were not promoting low standards. Low-quality KPIs could be easily achieved or they may not totally align with the organisation's strategic objectives.

> *The BSC is just a tool, we [leaders] have much to do to make the process and the indicators become dynamic ... and whether this information has been communicated to all levels and whether all employees knows what to do to achieve their individual KPIs* (C113AR).

Social mastery

Social or governance mastery, as mentioned by 11 interviewees (57.9%), is about the leaders creating the value system for the organisation and eradicating wrongdoings and unlawful actions. For instance, in a performance monitoring and evaluation meeting on 7 April 2009, the Finance minister expressed appreciation about what had been achieved in relation to the IMOF strategic performance management after one-year of implementation. All Echelon I had actually committed to signing performance contracts with the minister for the year 2009. Knowing that all Echelon I had developed strategy maps that were linked with the IMOF corporate strategy map and had a clear regard for stakeholder concerns, the minister also noted that

> *In the past, IMOF has never had an instinct to take care of other people who might suffer or enjoy our services, but now you all want to use those words [stakeholder perspective in the strategy map]. This means that something radical has happened in the Ministry. I reckon that this is a real revolution* (SMI, 7 April 2009).

The minister's appreciation was for the radical change in willingness of IMOF Echelon I leaders to measure stakeholders' perspectives on performance. One example was the annual

clients' survey to measure stakeholder satisfaction with the IMOF public service delivery every year since 2007.

Factors that challenged leadership effectiveness

In opposition to factors that supported leadership effectiveness, IMOF leaders were also asked to identify problems they encountered in implementing the BSC (Question 3): "What were the factors that challenge the effectiveness of your leadership role in implementing the BSC?". The responses indicate there were several factors they thought challenged leadership effectiveness in implementing the BSC. Eight factors were identified as presenting challenges to the leaders' ability to implement the BSC effectively (see Table 4.3.). The eight factors can be broken down into four issues and were found in all units in the IMOF bureaucracy. They are organisational issues, governance issues, personal mindset issues, and performance issues.

Table 4.3. Factors That Challenged Leadership Effectiveness

Challenging factors for leadership effectiveness	Link to the framework (leadership mastery)	N	% of total respondents
Trapped into many technical or non-strategic activities	Leadership effectiveness (personal mastery)	6	31.6%
Rigid structure, silo process	Strategy and HRM 'fit' (organisational mastery)	5	94.7%
Incompetent staff that cannot be sacked		5	
Change resistance: leadership & IT problem		4	
Lack of leadership competency framework		3	
Holding type performance management	Performance management system (performance mastery)	2	10.5%
Systemic corruption	Performance Governance (social mastery)	7	52.6%
Low demand for innovative and ethical leaders		3	

Organisational issues

The organisational issues were regarded by 94.7% of the interviewees as the first significant factor that challenged leadership effectiveness in implementing the BSC. Those organisational issues can be categorised into four items: rigid organisational structure and processes, incompetent staff that cannot be sacked, staff resistance to change and lack of leadership competency framework. With regard to the first issue, five of the interviewees claimed that the rigid structure of the public service bureaucracy had led to a silo approach to business processes in the IMOF, manifested in the lack of communication between organisational units.

> *We found that the Indonesian bureaucracy apparatus is too rigid; the same structural leadership positions and patterns are designed for all ministries. For example, one directorate will only have a certain level or maximum number of divisions and for a division there must be a maximum level of sub-divisions. We don't have flexibility in designing or redesigning our current leadership structure to better manage our public services* (C104FR).

With regard to the second organisational issue, five of interviewees mentioned incompetent staff who could not be sacked. For example, in one Echelon I, about 2,000 incompetent people were identified but could not be fired due to very complex personnel regulations in the Indonesian bureaucracy. One Echelon I interviewee stated:

> *We currently have difficulties in getting rid of employees or middle-level managers who have very low performance and very low standards in terms of behaviour. We don't have a final solution of how to get rid of the many incompetent employees who have been identified by the reform agenda* (C112HP).

With regard to the third organisational issue, four of interviewees revealed reform resistance in terms of change in leadership style, and the IT problems in association with the BSC software and other performance information system that currently exist in the IMOF. Finally, three of the interviewees noted that there was an organisational dilemma in that there was no clear leadership competency framework to work with.

Governance issues

The second factor which challenged leadership effectiveness in implementing the BSC was social or governance issues. In this category, 52.6% of interviewees identified systemic

corruption and low demand for innovative leaders in the Indonesian public sector. Seven interviewees (36.6%) indicated that the systemic culture of corruption was the greatest challenges for them to overcome when undertaking the reform agenda.

> *In the past, it was common to abuse power and misuse leadership responsibility. I committed myself not to be involved in the corrupt mindset in the bureaucracy. Personally I have a principle to always do my best. I take my responsibility with the whole heart and I maintain a high commitment towards integrity* (C112HP).

Another interview at Echelon I, who was concerned about changing the corrupt bureaucratic culture through reform in the IMOF bureaucracy, strongly stated his personal motivation by saying:

> *In the past, asking money for the services was common and staff would try to get money through bribes to support their needs due to their low salary. One thing that motivated me to lead the reform in my unit is that I wanted to see the organisation change* (C103TS).

When further asked about what type of organisational change and whether or not this related to the IMOF reform agenda, he confirmed and explained:

> *What I mean here [change in the IMOF reform agenda] is a radical change. The radical change needs three aspects: change in the strategic stages, change in the implementation or process stages and change in the corporate culture* (C103TS).

Secondly, with regard to the low demand for innovative and ethical leadership in the public sector, three interviewees (15.8%) confirmed that the reform initiative must come from the personal willingness of the leader to engage in the reform process. A lack of innovative and ethical leadership in the national politics was, according to Dr Mulyani, getting more 'intense' in the democracy era in Indonesia.

> *Our members of parliament are so powerful. I had been asked very harshly about so many things regarding my decisions, statements and all the things. Innocently, I thought this was the consequence of the democracy. So I started to write down all of their questions. But after I wrote their questions, they walked away from the meeting room and seemed that they didn't care about whether their questions would be answered or not* (M101SM).

Dr Mulyani went on to reveal how democratisation had contributed to the development of a consultative leadership for her.

> *I asked my Inspector General, to provide the 'do' and 'don't' for me, and he replied that this was the first minister asking about this in the bureaucracy, because basically the minister always could do everything including replacing Echelon I anytime* (Sri Mulyani's Public Lecture, Detik.com).

Furthermore, Dr Mulyani made a call for reform in the ethical standards that govern the politicians and bureaucrats. She strongly stated:

> *That episode of the drama* [politicians behaviour in the parliament] *made me think seriously. When in public, those HE members of Parliament acted like that without anyone who could prohibit them to expose lies in public, so my question is, what standard or who else would become our guidance?* (M101SM).

Personal mindset issues

The third factor that challenges leadership effectiveness in implementing the BSC to improve performance was the performance mindset. Six interviewees (31.6%) mentioned that IMOF leaders in the bureaucracy tended to get caught up with routine jobs. They became trapped by too many short-term technical activities. Thus, encouraging them to focus on long-term performance and strategy was often difficult. For instance, one Echelon I commented, "I found that bureaucracies got caught on technical matters so that strategy did not move well" (C113AR).

Performance issues

The fourth factor that challenged leadership effectiveness in implementing the BSC concerned performance issues. Two interviewees (10.5%) emphasised that performance issues were directly associated with the IMOF 'holding' type of performance management system. Two interviewees (10.5%) mentioned that the performance management in the IMOF was based on the 'holding' type of accountability system. Current performance achievement was still limited due to the centralistic decision-making process. In addition, there was limited coordination between Echelon I organisations due to the lack of units specifically tasked with managing the whole-of-ministry strategy and performance. With regard to this issue, the current minister, Mr. Agus Marto Wardojo revealed that

The holding type system in the IMOF probably is not ideal for ministry performance management. To supervise this big organisation, there is a need to enhance the existing risk management, HRM and management of information and technology infrastructure for the whole IMOF.

Strategy and HR Management 'Fit'

The strategy and HR management 'fit' is the second element of the conceptual framework. It is the second factor necessary to successfully implement the BSC. To explore the perspective of the interviewees about this element, Question 4 asked: "How were the organisational strategies developed under the BSC approach, and how were they aligned with departmental strategies among units within the IMOF?". From 19 interviewees, six categories of responses were collected as shown in Table 4.4.

Table 4.4. How to Develop the IMOF Strategy and HR Management 'Fit'

Contributing factors to strategy and HRM 'fit'	Linked to framework	N	%	% of total respondents
IMOF strategy was a result of the leadership collaboration	Leadership Effectiveness	15	78.9%	94.7%
An Echelon I leader was responsible for each Echelon I strategy		14	73.7%	
The Minister led the development of IMOF strategy		13	68.4%	
Strategy and alignment with HRM made by consultant/ad-hoc team	Strategy & HRM 'fit'	9	47.4%	63.2%
IMOF strategy based on BSC was developed by power and delegation		3	15.8%	
BSC is used to develop strategic objectives, KPIs and to monitor the implementation of the strategy	PMS	15	78.9%	78.9%
Initiating stakeholder focus in the BSC system (strategy has not been properly developed and aligned with HRM)	Performance Governance	7	36.8%	36.8%

All of the responses are interconnected. For instance, the first category of response represented the collaborative process of defining the whole IMOF vision and mission. Defining vision and mission for such a big organisation like IMOF needed the collaboration of all leaders in the IMOF. The first category of responses was based on 15 interviewees (78.9%) who argued that the vision and mission were outcomes of the organisation strategy process as determined by the leader and his or her colleagues under his or her supervision.

All of them also mentioned that the BSC had been used as a tool to develop the IMOF strategy map and to monitor the implementation of IMOF strategy. All of the interviewees agreed that by implementing the BSC, there was a change in the strategy development process from a bottom-up approach under the SAKIP to a top-down approach under the BSC. According to the former chairman of the IMOF Bureaucracy Reform Team (TRBP),

> *TRBP was the one that suggested the BSC approach to be implemented in the IMOF. When the minister agreed to implement it massively to the lower level, it then could be done more easily* (C107MH).

The second category of response revealed the perception that it was the responsibility of each Echelon I to develop strategy. Confirmation that the Echelon I leaders had a key role in designing strategy for their own units under the BSC approach was provided by 73.7% of the interviewees. This was in line with the different stages of the reform process that had been set out for every Echelon I in the IMOF. The importance of Echelon I roles in advancing reform in the IMOF was mentioned by several interviewees. One of the interviewees who was originally from the DG tax confirmed the Echelon I role in developing and implementing strategy for reform by saying:

> *A regional office (Kanwil) for Large Tax Payer Offices (LTO) has been developed in 2002, the idea was that we wanted to change the atmosphere. We did not want to play with money; if tax payers gave us bribes, we would say 'no'* (C116RP).

Another Echelon I mentioned that to encourage performance improvement, their unit proposed the improvement of the remuneration package for the employees in the modernised offices:

> *The first concept about remuneration is originally from our unit. We proposed it only for our modernised offices, because all employees had already been selected through capability assessment. The total amount is calculated based on what is needed to provide a decent take-home pay for our staff, for their rent or accommodation, provide good schooling for two kids, health, transportation and recreation. This means they should no longer be corrupt* (C103TS).

The third category of response was about the important role of the minister in the development of the IMOF strategy. These interviewees clearly identified the importance of the top leader in the process of defining a clear strategy for the IMOF. The responses also showed the Finance minister's key role in developing the IMOF strategy based on the BSC approach, and initiating the strategic thinking for the development of the overall IMOF

strategy. These ministerial roles were recognised by 68.4% of interviewees. One of interviewee confirmed the existence of the new culture brought into the IMOF performance management by Dr Mulyani as follows:

> *Dr Mulyani style broke silos among Echelon I with a soft approach. By rotating the venue of the monthly board meetings, she did not use a frontal approach, perhaps to urge all Echelon I to know each other first* (C115BN).

The fourth category of response indicated the role of consultant or ad-hoc team in the process of developing IMOF strategy and aligning it with the HRM. This was indicated by 47.4% of the interviewees. Fitting the strategy to HRM was seen to contribute to the success of BSC implementation to improve individual and collective performance. The role of the consultant was indicated from the early stage of implementation of the BSC in the IMOF. One Echelon I commented that:

> *We invited experts in the field of the BSC to present to us all about the BSC. Apparently, the BSC is a management tool that we think will be able to answer the wishes of the Ministry of Finance .. to focus on strategies, to achieve the vision of the organisation with the performance indicators that are clear and measurable* (C108EA).

According to seven interviewees (36.8%), the IMOF just initiated the development stakeholder focus in the BSC system in response to the existing perception that IMOF strategy had not been properly developed and aligned with HRM under the BSC approach. Some leaders believed that the current IMOF long-term strategy was not yet properly developed and had not received enough attention, nor was it thought of as a strategic plan. One of the Echelon I interviewees stated:

> *The long-term strategy has not been properly developed or got enough attention and thought. If there is any document regarding the long-range plan, it has been developed in a hurry and it is not matched with the current economic conditions and HRM capacity. It seems like a wish list only* (C113AR).

Finally, there was some opinion that the reason why strategy alignment with HRM was not properly developed was due to the patronage in the IMOF. Three of the interviewees, or 15.8%, said that strategy in the IMOF was developed by subordinates who were delegated the task by their leaders in the Ministry.

Factors that challenged the strategy and HR management 'fit'

In order to explore factors that challenged the strategy management and HRM 'fit', Question 5 asked: "What were factors that challenged the strategy and HR management 'fit'?". The responses appear in Table 4.5.

The four most important factors were non-performance-based HRM strategy, out-dated civil service laws, poor IT planning and lack of national attention to long-term strategies. The poor 'fit' between the IMOF strategy and HRM was perceived to be a major challenge for improving performance under the BSC approach. Thus, attention to strengthening the IMOF HRM was emphasised by the Finance Minister, Mr. Agus Marto Wardojo, in 2011, in his statement that "our weakness currently is our HRM".

Table 4.5. Factors That Challenged the Strategy and HR Management 'Fit'

Challenging factors to strategy and HRM 'fit'	Link to the framework	N	% of total respondents
Non-performance-based HRM culture and multi-based remuneration system	Strategy and HRM 'fit'	4	63.2%
Too many incompetent employees (no firing policy)		3	
Flaws in DP3 (performance appraisal) implementation		3	
Inverse pyramid training program		2	
Strategy follow *tupoksi* (primary task and functions)		2	
Weak HRM – leaders' recruitment and promotion		5	
Rigid regulations: outdated personnel and public service laws	Leadership effectiveness	2	21.1%
The desire for a TRBP unit in the IMOF		2	
IT planning problems	PMS	3	15.8%
Lack of parliamentary attention to long-term strategy	Performance Governance	3	15.8%

Non-performance-based HRM strategy

Non-performance-based HRM strategy was mentioned by 12 interviewees (63.2%). This factor manifested in five aspects: the existence of non performance-based HRM culture and multi-based remuneration system; too many incompetent employees, flaws in the

performance appraisal, an inverse pyramid of leadership training program, and poor IMOF HRM, recruitment and development functions.

The first aspect that challenged the strategy & HRM 'fit' in implementing the BSC in the IMOF was the non-performance-based HRM culture. This was noted by four interviewees (21.1%). They thought it could hinder leaderships' attempts to improve the IMOF performance due to the existence of patron-client relationships in the bureaucracy and a multi-based remuneration system. The system was intended to provide additional salary either based on selected appointments of senior officials to become a commissioner and receive remuneration from the state owned companies or set an additional allowance for staff in managing special programs from budget. These practices had contributed to the non-performance-based HRM culture in Indonesian bureaucracy. One interviewee emphasised the importance of changing HRM culture:

> *I started from the HRM; I wanted us to change the culture. Our HRM is delivering service, and we need to adjust with the law and strengthen organisation capacity* (C112HP).

The second aspect that challenged the strategy and HRM 'fit' in implementing the BSC was too many incompetent employees. This was noted by three interviewees (15.8%). There is no plan to tackle the issue of underperforming staff identified after the office modernisation program. For instance, one Echelon I commented:

> *Our employees are too many and we cannot get rid of [fire] the incompetent ones. If we cannot touch these them I think we are not doing the 'real' reform yet* (C112HP).

Another interviewee mentioned that firing the incompetent officials is almost impossible in the Indonesian bureaucracy:

> *I found that a government official in Indonesia cannot be sacked and there is no mechanism that regulates how to fire them or give them a golden handshake for their early retirement* (C0104FR).

The third aspect that challenged the strategy and HRM 'fit' concerned flaws in the system of individual performance appraisal (DP3). DP3 is an individual assessment tool used for Indonesian public servants. It takes the form of an individual performance report signed by the superior. This document is the prerequisite for public servants' rank promotion (usually every four years) as well as the remuneration adjustment. In practice, the DP3 system has

been flawed in its implementation. For instance, one of interviewee from the Inspectorate General mentioned that there were many complaints from public servants that senior officials used DP3 as a way of imposing patron-client relationships. These officials tended to use the DP3 system to make their subordinates obey them rather than coach them for performance excellence. In this regard, one Echelon I from the Inspectorate General stated:

> *Many complaints were often received by my desk about the misuse of DP3 as power management. DP3 could be use to act arbitrarily against subordinates who do not want to follow or obey all of their leaders' personal directions, even though, an employee had put in a lot of effort for organisational performance* (C117HR).

The fourth aspect that challenged the strategy and HRM 'fit' in the process of implementation of BSC was the leadership training and development. This was noted by 21.1% of the interviewees. Under this aspect there were two main issues: the inverse pyramid of the leadership training program and flaws on the strategy follow *tupoksi* or function.

With regard to the inverse pyramid of the leadership training, the existing leadership-training pyramid was implemented based on the rule that the higher the level of leader, the longer the leadership-training program they should follow. The implication of this was that the leadership succession program failed to produce wise leaders for the IMOF. One interviewee said,

> *Our HR leadership engine did not produce a leader with typical quality or competency...an important step that we need to build is the system to produce wise leaders for IMOF* (C111PA).

Another Echelon I said:

> *When I attended leadership training level II, III and IV was a bit confused because the higher the rank the longer the leadership training program you should attend. I think the inverse pyramid of the leadership training program training should be changed proportionately with the level of the leadership rank* (C105SL).

With regard to the flaws in the strategy follows function issue, for most units in the IMOF, the main task and organisational functions seemed to be more important rather than developing a sound strategy for the whole organisation. This issue was mentioned by two interviewees (10.5%) who said that there were problems with the training and development program in several IMOF units. For instance, the training and education functions for the

IMOF were the largely the responsibility of the Finance, Education and Training Agency (FETA). However after the reform program started, there was mismatch between the training program provided by FETA's with current Echelon I training needs. One Echelon I mentioned that,

> *We [Echelon I] could say that we did our own work here [education and training program]. It means especially for FETA, that they needed to adjust their program to the needs of our unit. I needed 'gado-gado' [salad with peanut dressing] but they provided 'rendang padang' [beef curry]* (C112HP).

The fifth aspect that challenged the strategy and HRM 'fit' in the process of implementing the BSC was the poor state of the IMOF leaders' recruitment and development functions. This was noted by five interviewees (26.3%). The IMOF had a centralised recruitment, promotion and training policy that encouraged conformity not innovation. However, according to one interviewee, most civil servants did not realise that they were being prepared to become executors rather than leaders. One Echelon I proposed to get more professionalism into the IMOF and more talent from outside:

> *We should raise the quality of our human resources; secondly, it should be possible to look for talent from outside* (C113AR).

Such novel recruitment was undertaken for an Echelon I for the Fiscal Policy Office. He was from a reputable Indonesian university outside of the IMOF.

Rigid regulations around the public sector strategic management process

The second factor that challenged the strategy and HR management 'fit' in the process of implementing the BSC to improve performance relate to the rigid regulations around the public sector strategic management process. This factor was perceived by 21.1% of the interviewees. Two interviewees (10.5%) complained that the strategic management process in the Indonesian bureaucracy was too rigid in the sense that it would be difficult to make big changes in the organisation. One Echelon I interviewee stated:

> *A leader in the public sector was not able to make a big jump or change as compared to a leader in the private sector. Regulations in the public sector were set up with a high level of rigidity* (C114RS).

Poor strategy for IT and infrastructure

The third factor that challenged the strategy and HRM 'fit' was the IT and infrastructure problem. This factor was mentioned by 15.8% of the interviewees. The issue was associated with the poor IT and infrastructure strategy, particularly in relation to the management and reporting of performance under the BSC. One Echelon I raised the problem of the IT and infrastructure strategy with the lack of IT infrastructure policy in the IMOF as follows:

> *Several subsystems exist in the IMOF performance information system. Among those sub-systems are the treasury information system, the tax and customs information system, the budget information system and the BSC information system. Unfortunately these systems potentially create silos in the management of the IT infrastructure and policies in the Ministry; and this has become a top priority to be solved in the IMOF over the last five years* (C115BN).

Poor IT and infrastructure strategy hampered the leadership role to monitor the BSC performance results particularly for the achievement of long-term goals. It was considered important by 15.8% of the interviewees. One interviewee said,

> *We often released regulations but we did not monitor them. Another important factor for managing public organisation performance was the IT and its infrastructure. There should be policy monitoring and evaluation, but our planning for the IMOF's IT and its infrastructure was lagging behind.* (C107MH).

IMOF strategy in the current political setting

The fourth factor that challenged the strategy management and HRM 'fit' in the process of implementing the BSC was the alignment of IMOF strategy with the whole-of-government strategy in the current political setting. This factor was noted by 15.8% of the interviewees. Finally, three of interviewees (18%) raised the issue of lack of parliamentary attention to long-term national strategy. The focus of parliament was on the national annual budgeting target.

The Performance Management System

The performance management system was identified as the third factor linking leadership with performance outcomes. To explore this Question 6 asked "What role did the BSC play in the IMOF?". As shown in Table 4.6., the responses identified four roles of the BSC in the

IMOF in line with the four factors in the framework that link leadership and performance outcomes.

The BSC can be regarded first as the leadership tool that promotes accountability for performance and a tool for change into a performance-based culture. Five interviewees (26.3%) supported the explanation and expectation of the Finance Minister that the BSC report was a means to show to the stakeholders of the ministry and to confirm that there was performance accountability in the ministry. In the performance evaluation meeting on 7 April 2009, Dr Mulyani, the Finance Minister, stated:

> *I am glad to know that each Echelon I has implemented the BSC and chosen their KPIs mainly based on its ultimate stakeholder perspective. This has become the focus of the development of indicators that we wanted to measure.*

Table 4.6.The Role of the BSC in the IMOF

Contributing factors-(BSC roles)	Link to the framework	N	%	% of total respondents
Accountability for performance	Leadership effectiveness	5	26.3%	36.8%
Cultural change tool: performance-based		2	10.5%	
Individual performance measurement, and assessment	Strategy & HRM 'fit'	5	26.3%	57.9%
Strategy alignment and transformation tool		4	21.1%	
Strategic planning tool and alignment		4	21.1%	
Performance improvement tool	PMS	15	78.9%	100.0%
Performance management system		8	42.1%	
Media for performance contract		6	31.6%	
Performance evaluation and monitoring	Performance Governance	6	31.6%	31.6%

Secondly, the BSC can also be regarded as a management tool that promotes the strategy and HRM 'fit'. The leaders of the IMOF cascaded the IMOF-wide strategy map down to the Echelon III level in 2009 thus embedding it in the lower-level managerial strategy maps. Eleven interviewees (57.9%) confirmed the utility of the BSC as a management tool for strategic planning, alignment and transformation as well as linking organisational performance with individual performance management.

> *I want commitments from all unit Echelon I in the IMOF to use the BSC as the management tool. We only can say that we are good if we have indicators which say so.* (SMI, Finance Minister, Quarter I Performance Evaluation Meeting, Semester I 2009 – Performance Bulletin Ed. 2 2009).

However, one interviewee, an Echelon I leader, said that even though the BSC was used as the organisational strategy-planning tool in the IMOF, the role of leadership was more important in the process of using the tool to improve performance. He commented:

> *Leadership role is much more important than the tool. The BSC is only a managerial tool for planning, organising and controlling. If you fail to plan you plan to fail* (C106HD).

Thirdly, the BSC can be regarded as the tool for performance management system to improve IMOF performance. All of interviewees agreed on this. Fifteen of interviewees (78.9%) acknowledged that the tool had improved IMOF performance. Dr Mulyani, the Finance Minister, stated in the ministerial meeting in 7 April 2009:

> *What we want is that every day or every year, we need to feel that there is an improvement and not only that we feel it but also we have achieved it in terms of indicators [the BSC performance report] that can be published.*

In addition, with regard to the outcome of the implementation of the BSC in the IMOF, one of Echelon I commented: "Our bureaucratic reform program is intended to improve performance, and there is evidence that our performances have been improved" (C109HM).

Moreover, six interviewees (31.6%) thought that the BSC had provided assurance for the process of improving performance in the IMOF through the development of performance contracts between the Minister and all Echelon I leaders based on selected KPIs. One Echelon I said:

> *Indicators have been made based on commitment and agreement. One of the milestones of the implementation of the BSC was the signing of the first performance contract between the [Finance] minister and all Echelon I leaders. This provides assurance that the top leader can monitor the implementation from above (C107MH).*

Finally, the BSC also can be regarded as tool for promoting performance governance by facilitating the process of sustainable performance evaluation and monitoring. One Echelon I interviewee commented:

> *The performance management system [the BSC] was important but supervision was also quite important to sustain performance* (C0104FR).

Another interviewee admitted that sustaining performance evaluation based on the BSC was the most difficult thing in the process of reforming bureaucracy:

The most difficult thing doing reform was to change the culture. It needed a long time, so technically we needed sustainable performance evaluation (C103TS).

In summary, it was clear that most of the IMOF leaders perceived that the BSC has become established as the IMOF performance management system tool to improve performance sustainably.

Factors that challenged the implementation of the BSC

To explore factors that challenged the implementation of the BSC to improve the IMOF performance, Question 7 asked: "What are factors that challenge the implementation of the BSC in the IMOF?". Nineteen interviewees indicated that nine factors were challenging, as shown in Table 4.7. From the nine challenging factors, four categories can be identified: leadership factor, strategy factor, PMS factor, and governance factor.

Table 4.7. Factors That Challenged the Implementation of the BSC in the IMOF

Challenging factors for BSC implementation	Link to the framework	N	%	% of total respondents
Lack of supervision	Leadership effectiveness	6	31.6%	52.6%
Formality compliance		5	26.3%	
Resistance to the BSC		1	5.3%	
Several performance information systems	Strategy and HRM 'fit'	2	10.5%	10.5%
The static BSC		1	5.3%	
Over-reliance on the BSC reporting	PMS	4	21.1%	26.3%
Lack of follow up program and limited use of BSC		2	10.5%	
Patronage, organisational culture and mindset	Performance Governance	7	36.8%	36.8%

Leadership factor: the BSC and leadership supervision

Three implementation challenging factors were associated with the leadership effectiveness factor. Those were lack of supervision in the BSC implementation, formality-based compliance, and resistance to the BSC. Ten interviewees (52.6%) identified these factors. Six interviewees (31.6%) commented that supervision must be more important than the BSC system as performance management tool. One of the interviewee stated: "IMOF performance was limited… there was no supervision committee at the corporate level" (AMW).

Regarding the issue of formality compliance, there was an indication of compliance with the BSC implementation just for the sake of formality. This issue was indicated by five interviewees (26.3%). One Echelon I commented: *"As long as it was just a formality, it would be difficult for the unit in the IMOF to use the BSC for performance improvement"* (C112HP).

Strategy factor: the BSC in the multi-performance system and the static BSC system

Two challenging factors can also be associated with strategy and HRM management 'fit'. These factors were mentioned by 10.5% of interviewees. The first was that the BSC was simply one of a number of performance systems in the IMOF. One Echelon I commented:

> *In addition to the BSC,…we had the BKF's* [Fiscal Policy Office] *dashboard…DJPU* [DG Debt Management] *had a data base system as well,..more system information regarding trade balance, taxes, customs, import and export tax, and so forth, but we didn't have such a good access to that information yet* (C113AR).

The second factor was the static nature of the BSC system with regard to the performance management. One interviewee emphasised the importance of having the dynamic BSC that can keep up with and accommodate strategy adjustments:

> *In regard to the static BSC that we build….in some ways we could refine the KPIs...we improved those stated indicators…The Key Performance Indicators should be dynamic and kept up with changes and they also should be able to reflect what's going on in the organisation.*(C113AR).

The PMS factor: the BSC and business processes

Two challenging factors were associated with the PMS by five interviewees (26.3%). Those factors included the lack of a follow-up program or initiatives and limited use of the BSC system. With regard to the lack of follow up program or initiatives to improve the business process following the BSC report, one interviewee commented,

> *The BSC [report] was a portrait but not the one that moved us to perform. Essentially, the follow-up programs or initiatives for reengineering of the business processes were all we needed to improve performance and achieve the strategic objectives* (C116RP).

With regard to the limited use of the BSC, two interviewees (10.5%) said that the BSC had limited use, as indicated by its focus on just measuring the targets but forgetting about the effectiveness of the program.

Governance factor: the BSC and the patronage bureaucratic culture

Seven interviewees (36.8%) raised the issue that the BSC system could not affect the organisational culture and mindset, especially when key staff still favoured a patronage culture or paternalistic compliance rather than a performance-based culture. The interviewees noted that the prevailing culture made it difficult to measure a unit's or an individual's performance. If the performance had to be measured, leaders tended to report the good side only. As one interviewee remarked:

> *Implementing the BSC as a performance management tool was challenging, especially when we acknowledged that culturally our people didn't want to be assessed. Thus, in this regard, top leader commitment would determine the success of the BSC implementation.* (C107MH).

Another Echelon I also commented that paternalistic culture was not suitable for a performance-based culture that the BSC had brought to the IMOF. One interviewee confirmed the existence of a patronage and paternalistic culture in the Indonesian bureaucracy, including IMOF, stating that "the majority of our nation's culture was paternalistic, seeking examples from the leaders at the top and following them" (HP*).*

Performance Governance

To explore the impact of the performance governance factor in the process of implementing the BSC to improve IMOF performance outcomes, Question 8 asked: "To what extent were stakeholder concerns and governance principles accommodated in the IMOF's BSC system?". During the first three years of the BSC implementation in the IMOF, responses from interviewees were typically focuses on the elaborating the governance principles in each stages of the BSC implementation. As shown in Table 4.8., there were nine typical comments that can be associated and linked to the elements of the conceptual framework (See Chapter 2).

First, associated to the leadership effectiveness, two types of enhancement of the performance governance were identified. These were developing leadership awareness about government

agenda on reform in the bureaucracy performance management system and linking leadership with performance outcomes. Six interviewees (31.6%) believed that the good governance principle was developed through building IMOF leaders' awareness about the national agenda in the early process of performance-based planning and target setting including the national concern with eradicating corruption in the bureaucracy. One Echelon I interviewee claimed that these matters should have continuous attention when he stated:

> *The most difficult thing doing reform was to change the non-performance based culture. It needs a long time, so technically we needed sustainable performance evaluation* (C103TS).

Table 4.8. Developing Performance Governance in the IMOF's BSC

Contributing factors for performance governance	Link to the framework	N	%	% of total respondents
Developing leadership awareness about political agenda.	Leadership effectiveness	6	31.6%	52.6%
Linking leadership with performance		6	31.6%	
Developing stakeholders' perspectives in the IMOF strategy map	Strategy and HRM 'fit'	9	47.4%	100.0%
Complying with the existing rules and regulations		9	47.4%	
Installing good governance principles in the learning and growth perspective		8	42.1%	
Promoting a values- based performance management system	PMS	3	15.8%	31.6%
Aligning strategy and performance measurements in the BSC system		3	15.8%	
Sustaining performance evaluation and communication	Performance governance	9	47.4%	84.2%
Eliminating corrupt practices		9	47.4%	

Six interviewees (31.6%) supported the idea that leadership should be connected with performance to build leadership accountability in improving organisational performance. An interviewee commented:

> *Sharing of values seemed to be important for hindering us from building a silo [between units under the IMOF]. Based on the same values we started forming a common ownership and collaboration to tackle problems. How did we do that? At first, we strengthened the top leader's function and linked the leadership with the IMOF performance* (C107MH).

When the interviewer further asked how the process of linking the leadership with performance in the IMOF happened during the reform agenda, the interviewee explained:

> *In the context of improving performance in the era of our reform agenda, leadership willingness and involvement was really important. The minister in the beginning asked to gather all Echelon I's to discuss about strategy together. That was the beginning of ownership development. Then we started linking individual unit strategy towards the same focus, which was the IMOF's performance improvement* (C107MH).

Associated to the strategy and HRM 'fit', three enhancement factors for the performance governance in the IMOF's BSC system were identified in terms of incorporating stakeholders' perspective in the IMOF strategy map, complying with the existing rules and regulations, and installing good governance principles in the learning and growth perspective in the IMOF strategy map. Eight interviewees (47%) confirmed that the BSC could accommodate governance indicators under the learning and growth perspective. One of the interviewee confirmed this by saying:

> *We have entered several governance indicators in the BSC performance management system under the learning and growth and internal process perspectives* (C102MP).

To enhance IMOF accountability for state budget management, two good governance measures were installed under the learning and growth perspective in the IMOF-wide strategy map. One of the interviewees, who installed this measures under the category of good governance's strategic objective, commented:

> *KPIs on the quality of financial report BA 15 and BA 99 [codes for IMOF Budget in the State Budget] were included as part of the IMOF-wide strategy map as well as in the unit Echelon I* [Inspectorate General] *performance measures since 2007* (C109HM).

When further asked about the implication of inserting this type of good governance measures in the IMOF's BSC, the interviewee explained that several programs and activities had been developed following the establishment of KPIs and inserted it in the IMOF-wide strategy map for 2008. He also elucidated about the process as well as the performance outcomes.

We started working to train our people to be able to assist the weak reporting units. We identified previous findings from the Supreme Audit Office and solved the problem associated with it. We coordinated with Echelon I units to mitigate the audit process and based on this cooperation, we made progress. Finally, in 2010, our Laporan Kegiatan Pemerintah Pusat or LKPP [state financial report] *received a Wajar Dengan Pengecualian or WDP opinion* [qualified opinion] *from the Supreme Audit Office* (C109HM).

Associated to the performance management system (PMS), two enhancement factors were identified in terms of promoting a values-based performance management system and developing the dynamic BSC that means a BSC that promoted an alignment between strategy and performance measures. Three interviewees (18%) confirmed that good governance could be developed through the promotion of values in the IMOF performance management system. The minister, Mr. Agus Marto Wardojo, emphasised this:

A values-based performance system would have empowered IMOF to contribute to the whole-of-government approach to solve national problems: central-local coordination, infrastructure development across provinces, and sound public financial management at central and local level (M102AMW).

Associated to the performance governance, two enhancements of the performance governance factors in the BSC system were sustaining performance evaluation and communication, and eliminating corrupt practices. Nine interviewees (53%) claimed that good governance values could be promoted through implementing sustainable performance evaluation and communication. One interviewee said: "The most difficult thing doing reform was to change the culture. It needed a long period of time, so technically we needed sustainable performance evaluation" (C103TS).

Nine interviewees (47.4%) confirmed that eliminating corrupt practices has become the ultimate target for enhancing performance governance. One interviewee emphasised its importance by connecting the process of eradicating corrupt practice with the level of a leader's personal ethics:

..the cost of becoming good bureaucrats [in the IMOF] would be very high. First of all you must have such a good level of personal ethics that prohibits you from being corrupt. (M101SM).

Factors that challenged performance governance

To explore factors that challenged the performance governance of the IMOF's BSC system, Question 9 asked: "What were the factors that challenged the sustainability and governance of the IMOF's BSC system to improve performance?". As is shown in Table 4.9, there were four typical challenges mentioned. Each can be associated and linked to the one of the element in the conceptual framework (see Chapter 2).

Table 4.9. Factors That Challenged the Performance Governance in the IMOF

Challenging factors to performance governance	Link to the framework	N	%	% of total respondents
Lack of national leadership exemplar	Leadership effectiveness	10	52.6%	73.7%
Patronage-based vs. performance-based accountability		5	26.3%	
Inflexible organisational structure	Strategy and HRM 'fit'	3	15.8%	31.6%
IT and infrastructure problems		3	15.8%	
Dynamic BSC performance measurement		2	10.5%	
Problems in measuring fraud	PMS	6	31.6%	31.6%
Corrupt mindset problem	Performance governance	8	42.1%	89.5%
IMOF reform in the midst of national bureaucracy		7	36.8%	
Silo mentality		6	31.6%	
Integrity dilemma in the compliance-based bureaucracy		5	26.3%	
Uncontrollable issues (no compliance unit)		3	15.8%	

Associated with the leadership effectiveness, 14 interviewees (73.7%) perceived that there were two typical challenging factors. These were lack of national leadership exemplar and issues around patronage-based vs. performance-based accountability. With regards to the lack of national leadership exemplar, the former minister implied this when she claimed different values between reformers and the prominent values of the traditional Indonesian public service and the member of the parliament. The minister mentioned a case of her struggle with lack of the good leadership exemplar shown by leaders in the government and parliaments. For instance, in promoting reform in one of Echelon I to curb corruption in ports, there were strong men who always tried to contact the director -general to provide waiver and ease. An Echelon I revealed the existence of strong men as a real performance governance challenge:

The strong men who usually called us, they were businessmen who backed by royal senior public officials, former custom's insiders, politicians or generals from the army. But now we ignore it (IMOF, 2011).

The issue of patronage-based *vs* performance-based accountability was raised by one interviewee, the leader of a big unit in the IMOF who stated that the paternalistic culture was still existed in the Indonesian bureaucracy. During the interviewee, the interviewee expressed his commitment to culture change and to provide examples from the top.

I was trying to change the past 'to be service' leadership culture. For example, I changed the previous habits when I came to the local offices. I did not urge them to pick me up at the airport, no special rental vehicle, and no VIP room rental anymore. Because I had enough travel support, I did not ask them to pay my hotel bills. I didn't allow them to provide me with 'oleh-oleh' or gifts. I gave my wife enough money, so that she could pay for what she wanted (C112HP).

Associated with the strategy and HRM 'fit', three challenging factor were identified by six interviewees (31.6%). They were the inflexible organisational structure, IT and infrastructure problems and the static BSC performance measurement. With regard to the inflexible organisational structure, an Echelon I revealed the obstacles in creating a new unit necessary to support the reform agenda in the IMOF by saying,

There is inflexible structure in the Indonesian bureaucracy, for example, under a certain level of Echelons, it should have certain divisions and for a division, it should have a certain number of sections. For that reason we could not create a new investigation division, our proposal was eventually rejected (C113AR).

With regard to IT and infrastructure problems, the IT governance across Echelon I units was still very limiting. It was mentioned by three interviewees (15.8%). An Echelon I remarked:

We didn't develop interrelated and IT based business process. So far, Echelon I units in the IMOF tended to keep their own territory (C115BN).

In regard to the dynamic BSC system, three interviewees (15.8%) mentioned that in order to sustain, here was a governance challenge to make BSC as a dynamic performance management system. An Echelon I confirmed this challenge:

BSC indicators and the process should be dynamic and keep up with changes and should be able to reflect what's going on in the organisation (C113AR).

Associated with the performance management system (PMS), six interviewees (31.6%) were concerned about the problematic KPI target and realisation on the level of corruption that might trigger different perceptions in the stakeholders' mind. One interviewee stated:

> *Setting targets for minimizing fraud in an organisation is problematic. For example, in setting the target of the number of employees who commit corruption and get caught by our Inspectorate General, if the realisation was more than the target, this performance basically indicated that there was a better law enforcement by the management. But, on the other hand, it could also indicate that there was more fraud in the organisation* (C102MP).

There were five challenging factors associated with the performance governance. They were mindset problems, the IMOF reform in the midst of national bureaucracy, silo mentality, integrity dilemma in the compliance-based bureaucracy and uncontrollable issues. These factors were revealed by seventeen interviewees (89.5%) and accounted as the most important challenging factor for promoting performance governance in the IMOF BSC system to improve performance outcomes. Six interviewees (31.6%) raised the issue of silo mentality among Echelon I units in the IMOF. This apparently happened because of different values being developed in each unit's strategic planning. One interviewee commented:

> *I think promoting values for the whole Ministry was ok, but unit* [Echelon I] *core values should be situational. The situation was determined by the leader in each Echelon I unit. For example DG Custom job was very specific and contradictory: to serve and to supervise. To serve was intended to speed up the public service delivery to citizens, but supervisory was to control but it also happened to slow down the process of public service* delivery (C103TS).

In managing the IMOF performance, without clear values embedded in the organisation's strategy, it would be difficult to form such a well coordinated leadership with sustained focus on developing and implementing public policies. This was becoming the real concern of the Finance Minister, Mr Agus Marto Wardojo, who stated that

> *There were apparent silo mentality among Echelons I under the IMOF and the government had a weak coordination role among several government agencies performance outcomes.*

Conclusion

This chapter has systematically reported and classified the leadership perspectives on the process of implementing strategic performance management based on the BSC approach in the Indonesian Ministry of Finance during 2007-2011. It sets out the results of interviews with all of the IMOF leaders with regard to their views on the implementation of the BSC in the IMOF. Leadership as a person and process was perceived by IMOF leaders to be the most significant factor in the implementation of the BSC in the IMOF to improve performance. This chapter also looked at factors that enable BSC and factors that challenged the BSC to improve the organisational performance outcomes under the light of the key element of the conceptual framework: leadership effectiveness, strategy and HRM 'fit', performance management system, and performance governance.

Based on IMOF leaders' perspective there were four factors that becomes the most significant factors that supported the BSC in improving performance outcomes: the leadership organisational and performance roles, the IMOF strategy as a result of the leadership collaboration, the use of BSC as performance management system to improve performance, and the development of the stakeholder's perspectives in the IMOF strategy map and sustaining performance evaluation and communication.

Four factors that became the most significant factors that challenged the BSC in improving performance outcomes were: the organisation problem such as rigid structure, silo process and incompetent staff that cannot be sacked; the HRM problem particularly in recruitment, promotion and training and remuneration; patronage, organisational culture and mindset in the BSC implementation; and lack of national leadership exemplar for promoting performance governance.

Chapter 5
Improving Performance in the IMOF:
Perspectives of KPI Managers

This chapter presents the results of the semi-structured interviews from the perspectives of technical managers concerning the agenda of implementing the BSC approach to improve and sustain performance outcomes in the IMOF. The data obtained is based on responses from the KPI managers to nine interview questions (see Appendix A) that was developed from the conceptual framework set out in Chapter 2. There were 13 KPI managers interviewed, including the head of the Ministry Strategy Management Office (SMO) at the headquarters and all KPI managers (heads of the unit level SMOs) in the 12 Echelon I units in the IMOF.

The chapter begins with a discussion of the role of the strategy management office (SMO) and KPI managers in the implementation of the BSC in the IMOF. The KPI managers are considered the technical managers and their responses to the nine research questions (see Appendix A) are important with regard to two aims of this research. The first aim was to examine factors, which contributed to the success of the BSC implementation to improve performance. The second aim was to scrutinise factors that both contributed to and challenged the successful implementation of the BSC in the IMOF. Thus, in the light of the conceptual framework (See Chapter 2), presentation of the interview data focuses on the following four themes: leadership effectiveness; strategy management and HRM 'fit'; the performance management system; and performance governance. The chapter concludes with an overview of the KPI managers' perspectives.

The Role of the Strategy Management Office and KPI Managers

In late-2006, the IMOF developed a comprehensive plan for bureaucracy reform within the Ministry. The reform process was initiated by the establishment of the Centre of Bureaucracy Reform Team (Tim Reformasi Birokrasi Pusat [TRBP]) and an individual unit-level bureaucracy reform team within each organisational unit in the IMOF. The main tasks of these teams were to implement changes in five areas: HRM, business process acceleration, organisational restructuring, improved remuneration and key performance evaluation and

management. This was to be done by implementing the BSC to reform the IMOF's strategic performance management.

In line with the government's reform initiatives and policies in the areas mentioned above, the Finance Minister, Dr Sri Mulyani Indrawati, requested the creation of a special office, *the* Centre of Policy Analysis and Harmonisation (Pusat Analisis dan Harmonisasi Kebijakan [Pushaka]) in November 2006 to oversee the IMOF's ongoing reforms and to further anchor the IMOF's reforms. Pushaka also managed the minister's private office for key thematic functions that included service delivery; ministerial performance management; enhancement of the decision-making process; and harmonisation of the implementation of the ministry's reform agenda.

In 2007, the TRBP initiated the plan to adopt the BSC approach for the IMOF strategic performance management. It then held a series of meetings facilitated by the BSC consultant, involving all of the Echelon I leaders and the minister, to develop the IMOF strategy map. The result was the finalisation of the IMOF-wide strategy map incorporating five themes: state revenue, state disbursement, state finance, state asset management, capital market and financial institution supervisory (see Appendix D). The implementation of the BSC in all units within the IMOF was endorsed at the IMOF executive board meeting in December 2007. In the meeting, the Finance minister also assigned Pushaka to develop a strategy management office (SMO) for assisting her as the 'BSC champion' (the term for the leader in the implementation of the BSC) in the IMOF.

In 2008, Pushaka established a new division for planning and evaluating of the IMOF KPIs, which was basically to run the SMO function for the minister. Pushaka also facilitated the appointment of a unit-level KPI manager responsible for cascading the five themes of the IMOF strategy map that had been developed by the minister and the Echelon I leaders. This involved developing KPIs for each Echelon I unit and setting up procedures for KPI measurement, monitoring, and evaluation.

In 2009, for the first time, Echelon I leaders started to sign performance contracts with the Finance minister based on selected KPIs from their strategy map. Performance evaluation meetings were conducted on a quarterly basis led by the Finance minister. Meanwhile, the process of developing the strategy map and cascading the BSC within all units in the IMOF was completed down to the Echelon III level. In some of the Echelon I units, the process of

cascading the BSC performance management system reached the Echelon IV or individual levels.

Factors that contributed to the successful implementation of the BSC

All interviewees were familiar with the technical matters of the implementation of the BSC in the IMOF, particularly during the program of cascading the BSC strategy map from the IMOF-wide level down to the Echelon III level during 2008-2009. All of them agreed to the notion that the IMOF applied a top-down approach for implementing the BSC. In order to explore factors that contribute to the success of the BSC implementation, the first Question asked: "What were the factors that contributed to the successful implementation of the BSC in the IMOF?". Twelve factors were identified from the total of 13 interviewees. These factors can be associated with four factors in the conceptual framework that was set out in the literature review chapter: leadership effectiveness, strategy and HRM 'fit', performance management system, and performance governance.

Table 5.1. Factors That Contributed to the Successful Implementation of the BSC

Factors contributed to the successful implementation of the BSC in the IMOF	Link to the framework	N	N	% of total respondents
Top leadership commitment: meetings and monitoring	Leadership effectiveness	4	12	92.3%
The leadership role in developing staff capacity in implementing the BSC concept		3		
The leadership involvement in defining (and challenging) good quality KPIs		5		
KPI managers' roles in performance planning, reporting and evaluation	Strategy and HRM 'fit'	7	7	53.8%
Top-down approach in implementing the BSC		4		
Change strategy and HR capacity		2		
Prime movers of reform strategy: the Echelon III managers		2		
DG regulations for unit performance management	Performance Management System	5	9	69.2%
Internal regulations (Echelon I circulation letters) on business processes enhancement		7		
Embedding the BSC implementation		8		
Cascading the BSC down to the lower level (Echelon III) units in the IMOF		7		
Good relationship with stakeholders	Performance Governance	1	1	7.7%

The leadership effectiveness factor was identified as the most influential factor as perceived by KPI managers. This factor was mentioned by twelve interviewees (92.3%) in the forms of top leadership commitment in meetings and monitoring during the process of implementing the BSC, the leadership involvement in defining good KPIs and challenging the inappropriate KPIs, and the leadership role in developing staff capacity in implementing the BSC concept. The importance of the top leadership commitment and involvement for promoting the BSC concept contributed to the organisational effectiveness in implementing the BSC. For instance, an interviewee remarked:

> *Leader's roles are to understand, recognise the need of HR, and develop staff capacity in implementing the BSC. In this regard, IMOF Leaders had significant roles, making a 70% contribution or more to achieving organisational performance based on the BSC approach* (C307DS3).

Another interviewee made this complementary statement: "I can agree that, logically, there was a positive relationship between performance and leadership effectiveness" (C311PW3).

In addition, one KPI manager noted the importance the role of the leader for strategic planning process under the BSC approach: *"I can say that the role of leadership in my unit was really strategic"* (C302DS3).

Leadership was also identified as essential for implementing the performance management that was previously based on SAKIP. Thus, another KPI manager remarked:

> *The difficult role of leadership was to encourage people's understanding, awareness, and willingness to support the process of change in performance management* (C301AK3).

Furthermore, one KPI manager emphasised the leadership role in developing the right (good quality) KPIs and challenging subordinates about KPIs that had been set up and proposed by them during the process of implementing the BSC. She remarked,

> *Our Echelon I leader was involved in the process of defining the right KPIs and challenging subordinates who had developed the KPIs, in order to improve the appropriateness of those KPIs in the strategy map. He was also involved in defining some of the first KPIs for our unit* (C307DS3).

The performance management system factor was perceived to be the second most important factor in improving performance. It was directly associated with the process of implementing the BSC as the IMOF performance management system. Nine interviewees (69.2%) believed that implementing the BSC involved securing leadership approval followed by issuing internal regulations to legalise the BSC as the IMOF's performance management system. In addition, Echelon I leadership support was necessary for the enactment of internal rules at Echelon I level or below to impose the BSC implementation down to the individual level and for improving the standard operating procedures (SOP) for relevant business processes. In this regard, one KPI manager remarked:

> *We had several internal regulations regarding performance management including how to make a dynamic standard operating procedure. My unit was also responsible as the secretariat for the SOP management. The developer for an SOP manual could be a unit under the DG that provided initial input and then it was circulated and we compiled it again for improvement and final approval (C311PW3).*

IMOF internal regulations became the legal foundation for embedding BSC including the cascading process of the IMOF's strategy map down to the individual level. Embedding of the BSC at the unit level was the process of encouraging involvement and improving the capacity of staff to implement the BSC.

The strategy and HRM 'fit' factor was identified in the terms of the KPI managers' roles in performance planning, reporting and evaluation in twelve units under the IMOF; the top-down strategy approach in implementing the BSC; the effective change strategy and HR capacity development; and the role of a prime mover units to support the reform agenda and the BSC implementation process. These factors were raised by seven interviewees (53.8%). The roles of KPI managers at the headquarters, the Strategy Management Office (SMO) and at Echelon I level, were central to cascading the BSC down to the lower level. The SMO had specific roles as follows: to monitor external dynamics and scrutinise their potential impact on the organisational strategy; to assist leaders in the organisation and the organisation's stakeholders to review and develop an up-to-date vision, mission and organisational strategies; to consults with units in the ministry to develop strategy, KPIs, targets, strategies and budget for performance; to facilitate the strategy and performance alignment among units within the IMOF; and to prepare periodic ministerial performance reports (monthly,

quarterly, semiannually and yearly). In this regard the head of the SMO at the central office remarked:

> *The SMO aimed to support the process of top-level review meetings on the performance of units under the IMOF. The SMO also observed the improvement and the achievement of the IMOF initiative strategies* (C313SP3).

The SMO also had several major functions: collecting data and analysing KPI results and preparing material for KPI planning, monitoring and evaluating KPI achievement; and presenting report about the implementation of the strategic performance management system based on the BSC to the ministerial meeting in the IMOF. With regard to the KPI manager role, an interviewee commented:

> *KPI managers were regarded as change agents for performance management especially in dealing with several tasks including performance planning, KPI management and KPI evaluation. They also acted as change agents for reform* (C313SM4).

Finally, performance governance factor was the fourth contributing factor deemed necessary for implementing the BSC in the IMOF to improve performance. One interviewee (7.7%) remarked that good relationships with stakeholders had become important in the successful implementation of the BSC. In line with the minister's intention to satisfy public demand for improved IMOF performance, one KPI manager described the outcome of the BSC implementation in the IMOF as follows:

> *Our bureaucratic reform program was intended to improve performance, and there is evidence that our performance has improved* (C310RG3).

In summary, the IMOF leadership was perceived by interviewee as the most significant factor contributing to the effectiveness of the BSC implementation in the IMOF.

Leadership Effectiveness

In order to explore further the role of leadership in the IMOF reform agenda, particularly in implementing the BSC, Question 2 asked: "What role did the leadership play in the implementation of the BSC in the IMOF?". This question was designed to explore the perspectives of the KPI managers and the head of of the SMO. As shown in Table 5.2., from the 13 interviewees' responses, there were six typical answers that can be categorised into four types of leadership mastery (personal, organisational, performance and social mastery).

First of all, the leadership personal mastery was about becoming a figure to lead change and reform agenda. It was regarded as the most significant factor contributing to leadership effectiveness in the implementation of the BSC. The significance of this role was raised by 8 interviewees (61.5%). One interviewee who was also involved in the reform team in one of the major units in the ministry said:

> *Without the strong figure of the reformed leader such as Dr Mulyani in leading and providing clear direction for the IMOF reform agenda, I do not think that the DG Tax reform will be successful* (C311SJ3).

Table 5.2. The Leadership Role in Implementing the BSC

Contributing factors (leadership roles)	Link to the framework (leadership mastery)	N	%	N	% of total respondents
To become a figure to lead change and reform agenda	Leadership effectiveness (personal mastery)	8	61.5%	8	61.5%
To pass on or delegate instructions to subordinates	Strategy and HRM 'fit' (organisational mastery)	2	15.4%	5	38.5%
To establish organisational strategic planning		2	15.4%		
To align twelve Echelon I units' strategies		1	7.7%		
To internalise the BSC concept in the bureaucracy	Performance management system (performance mastery)	4	30.8%	4	30.8%
To improve performance	Performance governance (social mastery)	3	23.1%	3	23.0%

In addition, an Echelon II leader in a regional office in DG Tax confirmed the importance of the leadership figure at the ministerial and Echelon I and II levels in driving change in the organisation. He said:

> *Top leaders cannot simply ask people at the bottom to change. I had to set an example. In order to clean up the corruption practices I did not only instruct people not to do it. I also cleaned up my own practices and set an example from the top* (C202KY2).

The organisational leadership mastery was perceived as the second most important factor in promoting leadership effectiveness in implementing the BSC. Five interviewees (38.5%)

regarded these roles as important for the leadership effectiveness by employing three tasks: to pass on or delegate instructions for cascading the BSC down to the lower level leaders in the IMOF, to establish the organisational strategic planning and to align the 12 Echelon I units' strategies in the IMOF wide strategy maps.

With regard to the importance of passing on or delegating the minister's instructions for reform to subordinates or lower level leaders, one interviewee remarked: "Our typical work pattern was a rule-based bureaucracy. People waited until there was a regulation or direction from the top" (C312MM3).

The leadership organisational role in the IMOF could also be identified in the process of establishing the organisational strategic planning based on the BSC and aligning it with the IMOF wide strategy map. One KPI manager remarked on the importance of the leaders' strategic guidance as follows:

> *I can describe the role of leadership in my unit as really strategic. First of all, in the planning stage, our leader has always reminded us: "failing to plan is planning to fail". Our Director General always reminded us about this while we were preparing reports for quarterly performance meetings with the minister (C302DS3).*

Thirdly, the performance role was also identified as a contributing factor to leadership effectiveness in implementing the BSC by four interviewees (30.8). With regard to the embedding process, leadership support was seen as significant for allocating resources to support the BSC implementation during the budget period. As one interviewee noted:

> *During the on-going budget period, the additional funding needed for the embedding or 'internalisasi' of the BSC implementation was provided by the director-general. In the early stages his role was quite significant; we could meet with him directly, without any bureaucratic protocols. The focus group led by our consultant was also fully supported by him. All of the Echelon II leaders saw our leader figure being directly involved and it was possible to finalise the process earlier than expected (C301AK3).*

Finally, the leadership social mastery was seen as another important factor in supporting the leadership effectiveness in implementing the BSC. Three interviewees (23%) stated that following the embedding or *internalisasi* program of the BSC concept, was also promoting good governance values in the IMOF performance management system, in line with the

objective of the IMOF reform agenda. In fact, the development of performance governance in the IMOF was at the early stages. This was indicated by another KPI manager who stated that leadership played a significant social role in improving performance by promoting good governance values as the next agenda in the IMOF performance management system.

> *The next leadership role was embedding [good governance] values in the organisation. The values should function like blood in the human body. Values management was our next priority for continuing reform across all units in the IMOF* (C302DS3).

Another KPI manager noted that that the role of the leader in improving IMOF performance started with the development of the right KPIs that also in line with the stakeholders' expectation for better public service delivery. One of the Echelon III leaders stated that "the leadership role has more than 50% importance in driving unit performance in the form of better public service delivery [as measured by the IMOF stakeholder satisfaction survey]" (C312MM3).

Factors that challenged leadership effectiveness

In order to explore the KPI managers' perspectives on factors that challenged the leadership effectiveness in the IMOF to implement the BSC, Question 3 asked: "What were the factors that challenged the effectiveness of the leadership role in implementing the BSC?" As indicated in Table 5.3 below, there were five responses which could be associated with the four leadership masteries: personal, organisational, performance and governance/social factors.

First, the leadership performance mastery was perceived as the most significant factor that challenged leadership effectiveness in implementing the BSC. Eight interviewees (61.5%) mentioned that lack of leadership attention and involvement resulted in poor quality KPIs. One interviewee argued that 'proper' KPIs were important for providing the trajectories leading to the achievement of target performance. It was the leaders' role to challenge suggested KPIs to prevent the adoption of poor quality of KPIs. The interviewee remarked:

> *The difficult task of leadership was in challenging every KPI as to whether each one had been properly developed or not and stated as a trajectory for achieving the ultimate performance outcomes* (C301AK3).

Table 5.3. Factors That Challenge Leadership Effectiveness

Challenging factors to leadership effectiveness	Link to the framework (leadership mastery)	N	%	% of total respondents
Lack of leadership of attention and involvement	PMS (performance mastery)	8	61.5%	61.5%
Incompetent Echelon II and III leaders	Leadership effectiveness (personal mastery)	7	53.8%	53.8%
KPI gaming: avoidance of red label KPIs	Strategy and HRM 'fit' (organisational mastery)	4	30.8%	30.8%
Patronage: paternalistic vs. performance-based culture	Performance governance (social mastery)	4	30.8%	46.2%
Bias in KPI measurement: fraud handling		2	15.4%	

Secondly, the leadership personal mastery emerged as the second most challenging factor for leadership effectiveness in implementing the BSC. The leadership personal mastery as challenging factor was mentioned by seven interviewees (53.8%) who alleged that incompetent leaders and managers at the Echelon II and III levels had contributed to the low quality of strategic planning and KPI development and monitoring. One KPI manager revealed the following action by an Echelon I leader who knew that some of his key staffs were incompetent:

> *Our Echelon I leader tended to cover up the weaknesses of his subordinates at the Echelon II and III levels. Sometimes he worked alone; there were so many unstructured jobs and it even created further confusion among subordinates* (C305ED3).

Another interviewee commented on the poor quality of the strategic planning process as a result of the incompetence of the Echelon II leaders within one Echelon I unit, by saying,

> *People who were engaged in the strategic planning processes at the Echelon II level in our unit were not in a cohesive mood. They didn't talk to each other and tended to have their own mindset and approach* (C311SJ3).

These two responses clearly indicated the perception of a systemic problem in the IMOF in that no serious action could be taken towards underperforming leaders. An interviewee offered an observation about this by saying:

> *The leadership system could not guarantee that the business processes worked well and our system was not capable of getting rid of a leader who was not performing* (C310RG3).

Thirdly, the leadership governance factor emerged as another important factor that challenged the IMOF leadership effectiveness in implementing the BSC. The leadership governance factor was raised by six interviewees (46.2%) in terms of patronage and bias in KPI measurement. With regard to the existence of patronage as a challenging factor for leadership effectiveness, four interviewees (30.8%) thought that a paternalistic culture still existed in the relationship between employees and their superiors at every level in the bureaucracy. As one KPI manager stated: "Our units are still in the midst of the paternalistic culture" (C307DS3). This culture was seen to have supported loyalty-based performance management rather than result-based performance management. However, the paternalistic culture was also seen as a very good environment for leadership, which had a strong commitment to reform.

With regards to the potential bias in KPI measurement, two interviewees (15.4%) raised the issue of performance labelling for fraud handling. Minimising fraud means that organisations should aim to minimise the target for their stated KPI. This type of KPI finally has been removed from the Minister's performance dashboard due to its potential bias on performance outcomes and improvement. Thus, one KPI manager in the IMOF commented that "We have not yet started measuring and taking necessary actions against fraud and crime acts" (C310RG3).

Finally, the leadership-organisational factor emerged as the last important factor that challenged the leadership effectiveness in implementing the BSC. Four interviewees (30.8%) stated that there was tension regarding the purpose of implementing the BSC as to whether it was for organisational performance accountability or for improving performance. Emphasising accountability involved leaders at the lower level not wanting to get 'red label' for the KPIs from their superiors. The lower-level leaders tended to manipulate either the report or the KPI setting in order to easily achieve a 'green label' for the organisation's KPI report in each quarterly performance evaluation meeting. Thus, an interviewee said

> *At the Echelon II level, I found that they were afraid to have the red label on their KPIs, so the Echelon II leaders tended to play safe in front of the Echelon I leader during the performance evaluation meetings (C308HK3).*

In summary, under the leadership effectiveness category, leadership personal mastery appeared to be the most significant factor in contributing to the success of the BSC implementation in the IMOF. The leadership personal mastery was directly associated with the Finance minister and most of the Echelon I leaders in the IMOF who were personally

committed to becoming figures for leading change and the process of the BSC implementation in the IMOF. The leadership performance factor seemed to be the most challenging factor in the process of implementing the BSC. It was manifested in the poor quality of KPIs in some units in the IMOF.

Strategy and HRM 'Fit'

On the strategy and HRM 'fit' under the BSC approach, the question asked (Question 4) was: "How were the organisational strategies developed under the BSC approach? How were they aligned with HRM and departmental strategies among units within the IMOF?". From the 13 interviewees, eight major views were offered. Table 5.4. shows how these views can be related to each factor in the conceptual framework (see Chapter 2).

Table 5.4. How Were Strategies Developed and Aligned with HRM in the IMOF?

Contributing factors to strategy and HRM 'fit'	Link to the framework	N	%	% of total respondents
Determined by the Finance Minister	Leadership effectiveness	8	61.5%	100.0%
Determined by leader and his/her colleagues		5	38.5%	
Determined by the Echelon I leader		7	53.8%	
Determined by leadership delegation process	Strategy and HRM 'fit'	5	38.5%	53.8%
IMOF strategy based on the BSC was developed by power and delegation		2	15.4%	
Made use of professional consultants		1	7.7%	
BSC is used to develop the strategic objectives and KPIs	PMS	3	23.1%	23.1%
Initiating the development of stakeholder focus in the BSC design (strategy and innovation were not properly developed)	Performance governance	1	7.7%	7.7%

Top leadership was perceived as the most important factor in developing the strategy and HRM 'fit' in the process of implementing the BSC in the IMOF. IT was mentioned by all thirteen interviewees (100%) and perceived in terms of the Finance minister and the Echelon I leaders in determining the IMOF strategy as well as developing the HRM capacity during the process of implementing the BSC. The significance of the Finance minister's role in promoting the strategy and HRM 'fit' was noted by eight interviewees (61.5%) who stated that the Finance minister provided clear direction in developing strategy to improve

performance and governance during the BSC implementation. One interviewee from the largest unit in the IMOF affirmed the impact of the top leader's commitment:

> *We were able to eradicate the systemic corruption. We were finally creating a common concern that corrupt practice had to be eliminated from the office. People no longer openly discussed or engaged in corrupt practices* (C311SJ3).

One KPI manager reported that following the Minister's approval, resources and support poured into the process of embedding the BSC in each unit within the IMOF. Additional training and support were granted following directions from the top. He stated that:

> *We had the BSC training for all the Echelon III leaders and managers. The leadership support for providing the training was very strong. In addition, a media campaign through the DG website and all available channels was apparent* (C301AK3).

Five interviewees (38.5%) agreed that the organisation's vision and the mission were determined by the leader and his/her colleagues under the leader's supervision. The BSC was used to monitor the implementation of performance management through KPIs. One KPI manager from an Echelon I unit stated:

> *It was not easy to change the mindset that had been established over a long period of time to something new, but with the Echelon I commitment and involvement of all Echelon II and III in the process of developing strategy and implementing the BSC, it became a lot easier* (C301AK3).

In addition, the strategic discussion with other DGs could be done in a collaborative manner to promote strategy alignment. The same interviewee continued his statement as follows.

> *The Echelon I supported our discussions with the relevant DGs in the IMOF including with the Secretariat General; those strategic discussions under BSC approaches have been a lot better [than the previous strategic process under SAKIP] in developing togetherness and strategy alignment* (C301AK3).

Seven interviewees (53.8%) claimed that the IMOF's strategies were mostly developed by the Echelon I personnel. An Echelon I leader was responsible for designing strategy for his or her own part of the organisation.

The second contributing factor for developing the IMOF strategy and HRM 'fit' after the top leadership approval was the delegation process and employment of consultants. These factors were mentioned by seven interviewees (53.8%) who explained that the IMOF strategy was

determined by the leadership delegation process. For instance, an interviewee said: *"Leadership at the level of Echelon III has become the prime mover in our unit for the reform agenda and particularly in implementing the BSC"* (C310RG3).

However, the alignment between IMOF strategy and the HR capacity seemed to be questionable. An interviewee from an Echelon I unit mentioned problems in selecting competent staff to handle strategic matters. For instance, in response to the top leadership delegation regarding the BSC strategic planning and performance review, the interviewee remarked:

> *Our Echelon I leader asked for monthly strategy and performance monitoring; he asked for an early warning system to be run. But the burden was on the staff. And this became an administrative burden. We appointed capable people to do things even though these people were already overloaded with their ordinary tasks* (C303AS3).

With regard to the recruitment of consultants, as mentioned by 7.7% of interviewees, the IMOF continued to use consultants to support the BSC cascading process down to Echelon III level. One KPI manager offered his observation on the use of the consultant in the cascading process by saying

> *The BSC offered a basis for leaders to better manage change or execute strategy in the IMOF. Moreover, in the early stages of the implementation, together with professional facilitators from reputable consulting companies, all Echelon Is and the Minister had a series of meetings to design the Ministry strategy map as the first step in the development of a strategic performance management framework in the IMOF, and then cascaded it down to the lower level.* (C302DS3).

The performance management system factor was reported as another factor that supported the strategy and HRM 'fit' in the process of implementing BSC. This factor was mentioned by three interviewees (23.1%) in terms of the promotion of the strategic performance management system based on outputs or outcomes. For instance, under the BSC approach all units in the IMOF started to evaluate all of the KPIs that had been developed and revised them according to the new strategic objectives and the IMOF wide strategy maps that had been linked with the IMOF stakeholders' perspectives. One KPI manager said:

At the beginning of the BSC implementation process, there were top-down instructions and now our performances were measureable. The BSC has made it possible for us to measure the achievement of our performance outcomes. Many things still need to be done to improve the quality of the KPIs and define a direct relationship to our customers or stakeholders (C307DS3).

However, defining KPI based on outcomes has not been easy. KPIs in many Echelon I units had been developed based on output rather than outcomes. In this regard, one of interviewee mentioned that:

If we talk about performance then this could be about the outputs or outcomes. To know the outcomes, we need longitudinal research, but if we talk about output, it is real (C311PW3).

The performance governance factor emerged as another supporting factor for the strategy and HRM 'fit' in the process of implementing BSC. One interviewee (7.7%) mentioned that the development of stakeholder focused strategy under the BSC approach was initiated to improve the existing strategy in an Echelon I unit that was not properly developed due to lack of the stakeholders' concern.

In summary, interviewees saw strategy development under the BSC approach being done under the top-down approach. At the top, the minister and all Echelon I initiated the development of the strategy map and the process of cascading the IMOF strategy. Strong leadership commitment and direction to implement BSC were identified in strategic planning and defining the appropriate KPIs.

Factors that challenged the strategy and HRM 'fit'

To identify factors which challenged strategy and the HRM 'fit', Question 5 asked: "What are the factors that challenge the organisation in managing and linking the strategies with IT strategy and HRM?". As shown in Table 5.5., ten factors emerged as the challenging factors. These factors can be grouped into four challenging factors in promoting strategy and HRM 'fit' in implementing BSC in the IMOF: the leadership factor, strategy and HRM factor, performance management system factor and governance factor.

First, the strategy and HRM factor emerged as the most important challenge in promoting strategy and HRM 'fit' in the process of implementing BSC to improve performance. It was mentioned by eight interviewees (61.5%) in terms of the difficulty to getting rid of

incompetent staff, fragmented HRM and training, poor link with promotion and rotation, lack of KPI managers independence in the Echelon I units, and poor coordination among KPI managers.

Table 5.5. Factors That Challenged the Strategy and HRM 'Fit'

Challenging factors to strategy and HRM 'fit'	Link to the framework	N	%	% of total respondents
Poor leadership capacity	Leadership effectiveness	7	53.8%	53.8%
Poor quality of KPIs		2	15.4%	
Leadership delegation problems		1	7.7%	
Difficulty of getting rid of incompetent staff	Strategy and HRM 'fit'	4	30.8%	61.5%
Fragmented HRM – training		3	23.1%	
Poor link with promotion and rotation		1	7.7%	
Lack of KPI managers' independence		1	7.7%	
Poor coordination among KPI managers		1	7.7%	
Poor budgeting-performance-remuneration link	PMS	3	23.1%	23.1%
Paternalistic culture	Performance governance	2	15.4%	15.4%

Four interviewees (30.8%) mentioned the difficulty of firing incompetent staff from public sector organisations. Policies such as giving golden handshakes to employees made redundant were mentioned by one of the interviewees that there was no golden handshake regulation available at the national level. The existing incompetent staff to some extent has had an impact on the IMOF performance management system based on the BSC. For instance the existing of incompetent staff in the office created problems either in reporting their performance or in the lack of national leadership willingness to deal with it. An interviewee remarked,

> *We can't use the good things about the BSC system in showing the fact about our existing HR condition. Because in consequence poor performance would always be in the minister's dashboard. We should be able to get rid the incompetent people in the IMOF, but until now we are still thinking about the golden handshake regulation (C303AS3).*

She elaborated further the consequence of this condition in the IMOF performance management by saying,

> *Firing incompetent staff members in the IMOF was almost impossible. So, in practice, after pointing to the red or yellow performance, the leaders might try to make it green, including changing the KPI or the target (C303AS3).*

With regard to the fragmented staff training, two reasons were mentioned by three interviewees (23.1%) in the forms of inoperative training policy and inappropriate leadership training program. Regarding the inoperative IMOF policy on centralised training and education managed by the Finance Education and Training Agency (FETA), one KPI manager commented that in practice:

> *The DG Tax did not follow fully the Finance Education and Training agency's training policy because the FETA could not fulfill our unit's needs (C311PW3).*

The reason for this answer was that in the past, the tax officials were specialised based on the type of tax (Value Added Tax or *Pertambahan Nilai* [PPN] and Income Tax or *Pajak Penghasilan* [PPH]). However, following the reform, the tax office needed more generalists and due to the limited internal capacity in the Finance Education and Training Agency (FETA), the DG Tax developed personnel training and development and ran it in partnership with an external training institution. Furthermore, with regard to personnel training and leadership development, another KPI manager remarked,

> *Leadership development at the lower and middle level in our unit was not adequate. Some employees from one bureau in an Echelon I unit have not had any training for the last 10 years (C303AS3).*

Furthermore, with regard to inappropriate leadership training program, One KPI manager stated:,

> *I attended the leadership training for the Echelon III leadership position that conducted by the IMOF - Finance Education and Training Agency. However, I didn't receive the lessons about the BSC strategic planning. But, we still learned a lot about the previous version of the government institutions' strategic planning and performance management based on SAKIP (C304MC3).*

With regard to the poor link with employee promotion and rotation, there was a perceived problem in linking performance with remuneration, since the existing policy was linking the individual grading for remuneration in the IMOF was based on the 27 level structural positions and not based on individual competencies. One interviewee remarked that she got an offer from an Echelon II leader to move to his office to replace his Echelon III leader who

was underperforming. The scenario was that they would swap the position. But the problem was that her grading would become lower than that of her current position and she would earn less than she used to receive because the grading system was based on the position and not based on competency or performance. She complained about this:

> *Someone labelled as an underperforming Echelon III leader would enjoy better grading by taking my current position. Our current grading system is funny, and I found some of my colleagues also had similar awkward situations like me* (C303AS3).

One interviewee (7.7%) mentioned lack of coordination among KPI managers, and another interviewee (7.7%) emphasised the KPI manager's structural problem in terms of independence in performance management. She remarked:

> *We had a structural problem. As a KPI manager or an Echelon III under an Echelon II leader, I don't think that I could be independent. For example, we knew that the appropriate performance outcome for a KPI should be 'yellow', but when an Echelon II wanted the 'green' label for that KPI, we could not challenge this because of our weak structural position* (C312MM3).

The leadership effectiveness factor emerged as the second most challenging factors in promoting the strategy and HRM 'fit'. Leadership effectiveness as a challenging factor was mentioned by seven interviewees (53.8%). This factor was perceived in terms of poor leadership capacity to implement the BSC, poor quality of KPIs to drive performance and leadership delegation problems. The issue of leader's capacity was noted by two interviewees (15.4%) who mentioned that incompetent staff, particularly in regard to the lack of leadership capacity, was perceived as the most challenging factor in promoting strategy the HRM 'fit'. One KPI manager noted that the IMOF aimed to improving leaders competencies (particularly for Echelon II and III level leaders) to meet with 70% of the ideal competencies for their positions. The same interviewee also said: "Pursuing the leadership competency indicator at 70% for our unit was hard. Our KPI achievement for this was 'yellow'" (C302DS3).

The difficulty to meet 70% competency standard for Echelon II was also found in other Echelon I unit. For instance, a similar observation was offered by another KPI manager:

I observed that our leadership weakness was that the Echelon II leaders did not quite understand about our unit, and these Echelon II leaders tended to think in the silo mindset. The leadership at the top was very concerned about this. However, there was a gap between the organisation's need and our HR capacity. I don't think that this was right, that every vacant position had to be filled with the existing candidates. So, it seemed that everyone who was appointed had no pride. This was wrong in regard to our HRM. (C308HK3).

With regard to the challenge in terms of poor KPI quality, two interviewees (15.4%) mentioned the lack of leadership commitment towards good quality of KPIs. One interviewee remarked:

I found that [leadership] commitment on good quality KPIs was still lacking. Many leaders sought so many KPIs in the beginning and didn't consider how to find the data to support their performance achievement. So, they got into difficulty at the end. They tried to have so many KPIs just to improve their grades and remuneration. So KPIs could be used just to achieve the remuneration targets.

The leadership delegation process was seen as potentially problematic. One interviewee (7.7%) remarked:

Some leaders put too much trust in their subordinates and some didn't. Some leaders did the job on their own even though it was technically feasible for the work to be distributed. On the contrary, there was a type of leader who never checked the results for a completed job that had been handed over and passed on to the leader's subordinates (C306AY3).

Thirdly, three interviewees (23.1%) mentioned the poor link between the IMOF performance management system based on BSC with budgeting and remuneration. Two interviewees (15%) noted that there was a poor link among budgeting, performance and remuneration:

The process of strategy development in the ministry was not fully integrated. For example, the process of budgeting was still being separated from the process of performance planning. In addition, initiatives for integrating the BSC with HRM particularly for promotion and personnel rotation were also not fully fixed (C301AK3).

In relation to the follow up question on why was the extra remuneration given to some leaders by appointing them as commissioners in state-owned companies, an interviewee pointed to additional problems in the IMOF remuneration policy:

There was no adjustment for inflation on the leaders' salaries. The standard salary amount in all cities was the same. Remuneration for DG tax and Capital Market and Non-Bank Financial Institutions Supervisory Agency employees was higher compared to other units in the Ministry while we didn't have mechanisms to evaluate remuneration based on differential performance or competencies (C303AS3).

Another interviewee raised the issue with regard to the national regulation of performance, budgeting and remuneration:

The existing regulation with regard to public financial law and performance management for the Indonesian public sector is not capable of providing a regulation base for the implementation of the BSC approach in measuring and evaluating a public sector organisation's performance budgeting (C313SM4).

Finally, the performance governance factor emerged as a challenging factor and was mentioned by two interviewees (15.4%) in relation to the paternalistic culture. One of KPI manager offered this observation: "The paternalistic culture is very clear in our unit" (C301AK3).

In summary, in the implementation of the BSC in the IMOF, the leadership effectiveness factors emerged as the most important factor that supported the development of strategy and HRM 'fit' in the BSC process to improve performance. The leadership effectiveness factors could be identified in terms of the Finance minister's involvement in the development of organisational strategies to improve performance and enhance the HR functions and leadership competencies, and the involvement of the Echelon I leaders and all middle- and lower-level managers in the process of cascading the IMOF-wide strategy map based on the BSC. However, there were notable challenging factors in the strategy and HRM 'fit' these included the difficulty of getting rid of incompetent staff, the fragmented education and training, poor link between performance, promotion and rotation, lack of independence of KPI managers in the Echelon I units and poor coordination among KPI managers.

Performance Management System

In order to explore the interviewees' perspectives` on the role of the BSC in the IMOF, Question 6 asked:. "What role did the BSC play in the IMOF?" From the responses, as shown in Table 5.6., seven roles can be identified. These seven roles of the BSC can be aligned with

the four factors in the conceptual framework: leadership effectiveness, strategy and HRM 'fit', PMS and performance governance.

Eleven interviewees (84.6%) interpreted BSC as the PMS for the IMOF. Most of these interviewees (76.9%) regarded the BSC as the IMOF's strategic performance management system. One SMO staff member observed that:

> *The Indonesian Ministry of Finance introduced large-scale implementation of the Balanced Scorecard as its strategic PMS tool for improving public services, performance and good governance* (C313SM4).

Table 5.6. The BSC Role in the IMOF

Contributing factors (BSC roles)	Link to the framework	N	%	% of total respondents
Accountability tool for performance	Leadership effectiveness	5	38.5%	38.5%
Tool for strategy planning and strategy alignment	Strategy and HRM 'fit'	2	15.4%	15.4%
Strategic performance management system	Performance management system	10	76.9%	84.6%
Method or means for performance contract		4	30.8%	
Performance improvement tool		3	23.1%	
Online performance management system		1	7.7%	
Performance evaluation and monitoring	Performance governance	6	46.2%	46.2%

The same interviewee explained that in the early stage of the BSC implementation, the ministry ran both the BSC approach and the SAKIP approach. One interviewee offered this observation:

> *The government of Indonesia has been adopting performance regulation so-called SAKIP. This was like GPRA [Government Performance Result Act in the US], as a system to formulate the strategic planning and performance reporting for the government institutions, and this has been implemented based on the Presidential Instruction No. 7, 1999* (C315L).

Moreover, the BSC was perceived as a method used for performance contracts. Four interviewees (30.8%) emphasised the importance of the BSC's role in arranging the leadership performance contract to strengthen commitment towards performance improvement. Under the BSC approach, all of the Echelon I leaders in the IMOF presented

the units' KPIs and targets, and signed the performance contract with the Minister every year since 2009 based on those numbers. One KPI manager confirmed the spread of performance contracts and their importance in improving performance in one Echelon I unit in the following statement:

> *By 2010 we have managed the performance contracts cascaded down to Echelon V, and to the staff level at the central office. Directors could get notices from the director-general due to the yellow and red label on their KPI achievements. Intensive monitoring of budgeting and planning, which has been done monthly, focused on finding ways to improve performance* (C302DS3).

Another interviewee (7.7%) regarded the BSC as an online system for performance management, while three interviewees (23.1%) conveyed the importance of the BSC's role as the leaders' tool for performance improvement. One of the interviewee offered the following observation:

> *Apparently, after implementing the BSC approach, there was growing concern in the quarterly performance meetings of the Minister and all Echelon Is under the IMOF. People were getting serious about paying attention to missing the organisational performance targets. Awareness of performance improvement was also increasing* (C303AS3).

Secondly, BSC roles can be interpreted as the tool for leadership effectiveness through promoting accountability for performance. This was mentioned by five interviewees (38.5%). After being asked what their idea was of 'performance', most of respondent referred to the SAKIP definition of performance as "a result of activities or budget expenditures in terms of output or outcomes".

One member of the SMO staff revealed that the aim of cascading the BSC down to Echelon III units and individual level was for promoting accountability based on performance. One interviewee commented about the process of cascading the BSC in the IMOF:

> *In small agencies such as the DJPU [Debt Management Office], the cascading process of the BSC has reached down to the individual level. However, in DG Customs, DG Tax, and DG Treasury, which had several offices at the local or district level on average, they finished the cascading process down to the Echelon III level. Only a few pilot offices, such as in the DG Customs and Excise have done the cascading down to the individual level* (C313SM4).

One KPI manager of an Echelon I unit believed that the BSC could become a better tool for performance based accountability in the sense that the BSC can provide better links between

government programs, budgets, and the targeted or actual outcomes. On discussing this, the interviewee explained the existing regulations related to the performance outcomes as follows:

> *The performance of many government institutions were linked to their goals, programs and objectives. It was imperative that performance measures in the budget should not be limited to measure the outputs but should also embrace the targeted and actual outcomes* (C312DJ4).

Thirdly BSC was perceived as a performance governance tool by promoting performance evaluation and monitoring. This was mentioned by 6 interviewees (46.2%). On a quarterly basis, the board meeting on performance with the minister had been held since 2008. One KPI manager confirmed that by 2009, almost all of the Echelon III units had signed performance contracts based on the BSC. With regard to the monitoring process of the BSC implementation, the interviewee commented:

> *Performance evaluation and monitoring at the Echelon I level have been done through the BSC application software* (C301AK3).

Fourthly, BSC was perceived as a tool to promote the strategy and HRM 'fit' in the IMOF. Two interviewees (15.4%) said the BSC was the tool for the IMOF strategy planning and strategy alignment with the HRM. At the planning stage, awareness of the importance of strategy alignment for such a big organisation with was indicated by the former Finance minister Dr Sri Mulyani, taking control and responsibility for leading the process of developing the strategy map at the headquarters and cascading the BSC strategic objectives down to the lower level units in the IMOF. One senior official at the SMO noted:

> *The lower level Scorecard should be designed in alignment with the higher-level scorecard by identifying strategic objectives and how to measure them. Alignment was developed by making sure that lower-level strategy objectives had a direct or causal relationship with the higher level scorecard and its measurements* (C317SP).

As already reported, the implementation of the BSC in the IMOF was seen as a top-down initiative to achieve change in the organisational performance management culture at all levels. In describing the process of how Echelon I leader ignited the change in performance management practices in the IMOF, one KPI manager explained as follows:

The BSC was used to a great extent. Frankly the Echelon I leader paid attention heavily to the content and coverage, and to the consistency with regard to monitoring performance achievement and data validation. Without the top leader's role in the bureaucracy, a solid coordination would be impossible (C309ES3).

Several KPI managers from Echelon I units noted the leadership commitment to implementing the change in organisational performance management. In developing targets and KPI settings for cascading the IMOF-wide strategy map down to the Echelon III unit, the KPI managers confirmed the importance of the leadership commitment:

We had the BSC training program for all of the Echelon III leaders in our unit. The leadership support for providing the training was very strong. In addition, media campaigns through directorate generals' websites and all available channels were apparent (C317SP).

Factors that challenged the implementation of the BSC

In order to explore the challenges in the process of implementing the BSC to improve the IMOF performance, Question 7 asked: "What were the factors that challenged the implementation of the BSC in improving the IMOF performance outcomes?". As revealed in Table 5.7., there were nine challenges perceived by interviewees.

Table 5.7. Factors That Challenged the BSC Implementation

Challenging factors for BSC implementation	Link to the framework	N	%	% of total respondents
Lack of leadership follow-up after performance meetings	Leadership Effectiveness	4	30.8%	30.8%
Supervision problem in implementing and cascading the BSC system		2	15.4%	
IT problem: leaders didn't use it	Strategy and HRM 'fit'	5	38.5%	69.2%
Lack of competence with regard to the BSC		4	30.8%	
No incentive based on performance		1	7.7%	
Poor strategy alignment		1	7.7%	
KPI gaming	PMS	2	15.4%	23.1%
Poor quality of KPIs		2	15.4%	
Cultural and mindset problem	Performance governance	2	15.4%	15.4%

These challenging factors can be associated with the four elements of the conceptual framework for implementing the BSC to improve the IMOF's performance outcomes (see Chapter 2).

First, the strategy and HRM 'fit' factor was perceived as the most important challenge. Nine interviewees (69.2%) mentioned this factor in terms of an IT problem (leaders didn't use it), lack of HRM competence with regard to the BSC, no incentive based on performance, and poor strategy alignment. The use of information technology (IT) in the BSC can be an implementation problem. Five interviewees (38.5%) claimed that the unreliable IT in the BSC system had created problems for performance monitoring and evaluation. Responses included the following:

> *The BSC information system was not yet effective. The leaders didn't use it as an on-line-real time reporting system yet. One major reason was that our KPIs were currently still under development so incorporating the process of change into the system would take more time to prepare and adjust it again later* (C304MC3).

Another KPI manager also noted the limited use of the BSC system:

> *We have started to enter KPIs, performance targets and achievement levels into the system but we don't use the online system for the BSC monitoring report* (C304MC3).

The lack of competence about the BSC was reported by four interviewees (30.8%). For example, one KPI manager remarked:

> *The BSC system was probably only half understood by the Echelon III leaders. Many employees didn't understand what it was for. The BSC has not become a daily management tool. We keep monitoring monthly performance improvement, but did not discuss it seriously. Many KPIs have been set at a low standard so that those KPIs would all be achievable or simply just to comply with the new process* (C312MM3).

The lack of competency was understood by the leaders but they seemed not to have decided on a solution. During the performance evaluation meetings, this issue was ongoing and unresolved. One KPI manager remarked,

> *The leaders' expectation did not seem clear in the implementation of the BSC especially in tackling the underperforming employees. We need to find a way out; it's not explicit at this moment* (C305ED3).

Another two factors that challenged the implementation of the BSC in the IMOF were: (a) there were no incentives based on performance, and (b) strategy alignment was poor. As mentioned by one interviewee (7.7%), towards the end of the research fieldwork, an incentive policy based on performance had not yet been implemented in the IMOF. Another

interviewee (7.7%) claimed that there were still strategy alignment problems in implementing the BSC. Changing the historical mindset from the 'strategy follows function' to the 'function follows strategy' seemed to be a continuous challenge in strategy alignment with the HRM.

Leadership ineffectiveness was reported by four interviewees (30.8%), who saw it as the second most important factor that challenged the implementation of the BSC to improve the IMOF performance outcomes. This factor consisted of lack of leadership follow-up after the performance evaluation meetings and supervision problems in implementing and cascading the BSC system down to the lowest level of staff in the organisation. Four interviewees (30.8%) revealed the lack of leadership follow-up response after the performance meetings. One of them remarked:

> *We had good attention on performance but it was not enough. During the reporting process to the minister, our leader took great care of the unit performance reporting, but the follow-up actions after the meeting seemed to be neglected* (C306AY3).

Two interviewees (15.4%) believed that there was a top leadership supervision problem in implementing and cascading the BSC system in the IMOF, particularly after the era of the former minister, Dr Mulyani. Without proper supervision from the Echelon I leaders, KPI development and reporting could be problematic. This was also implied by most of interviewees in the process of implementing the BSC to improve performance outcomes. In absence of enough attention from the minister in a performance management evaluation meeting, one KPI manager speculated that: "Our current minister seemed not to take care about the BSC in the IMOF anymore, because the implementation at the Mandiri Bank was not successful" (C310RG3).

The third challenging factor mentioned was PMS. Three interviewees (23.1%), cited this aw a challenging factor in the implementation of BSC to improve performance. Included in the PMS factor were the KPI gaming phenomenon and poor quality of KPIs: "I found that there was KPI gaming in practice. KPI gaming was an attempt to make always 'green' label for KPI achievements" (C303AS3).

In regard to the poor quality of KPIs, this could also be associated with staff competencies, particularly the concern about poor engagement with professional consultants from outside. One KPI Manager offered the following observation:

At the top level, the BSC socialisation and training were done by one consultant and at the lower level; the implementation was done by another consultant. Furthermore, there was an impression that after the process was done by the consultant so everything should be all right and acceptable (C308HK3).

Poor engagement with the consultants as perceived by the interviewee could create a problem when the poor quality of KPIs was developed due to unsmooth process of changing the consultants.

We found some missing link [between strategy and KPIs] in our unit strategy map when there was a change in consultant recruited for the BSC implementation in the IMOF (C308HK3).

The fourth factor, governance, , was mentioned by two interviewees (15.4%) as being challenging to the success of implementing BSC for improving performance. The governance factor was found in the form of cultural and mindset problems when promoting a performance-based culture in the IMOF. An interviewee argued that mindset and cultural considerations could not be explored in the BSC system:

Culturally, public servants wanted to have an easy job, they didn't want their performance to be measured and if it had to be measured they would develop an easy measure. Interestingly, when the unit knows that there would be an incentive for cascading down to the individual level, then individuals KPIs could be developed within just a couple of days (C309ES3).

In addition, the existing Indonesian traditional performance management system focused on programs rather than performance outcomes. In consequence, there was also a tension in cascading the KPIs from the Echelon I unit down to the individual level, whether it should be focusing on programs, activities or KPIs. In this regard, one KPI manager noted:

Too much focus on programs has led people to be easily distracted to the non-value-added activities. These activities or programs sometimes were not directly related with the ultimate KPIs of the unit (C311SJ3).

In summary, the performance management system factor was regarded as the most important contributing factor to the process of improving the IMOF performance. The use of the BSC as the IMOF strategic performance management system provided the framework for performance contracts, performance improvement and online performance management. However, the strategy and HRM 'fit" factor emerged as the most challenging factor in implementing the BSC in the IMOF due to the existence of the IT problem, lack of staff

competence, no performance-based incentive and poor strategy alignment during the implementation of the BSC in the IMOF.

Performance Governance

In order to explore the performance governance factor in implementing the BSC as the IMOF performance management system, Question 8 asked: "To what extent were stakeholder concerns and good governance principles accommodated in the IMOF's BSC system?". The interviewees were mostly concerned about incorporating the stakeholder perspective in the IMOF strategy map as the leadership framework for performance improvement, and accommodating the governance principle in the learning and growth perspectives in the strategy map. These concerns are set out in Table 5.8. and are associated with particular factors in the conceptual framework (see Chapter 2).

Under the PMS factor, promoting a values- based performance management system was perceived as the most significant contributing factor in promoting performance governance in the IMOF. This factor was mentioned by seven interviewees (53.8%). By promoting values-based performance system, the organisation was expected to create good quality KPIs that measured the IMOF strategic objectives. With regard to the importance of promoting a value-based performance system in the BSC design, one KPI manager remarked:

> *Our foci were improving the quality of the existing KPIs and creating new good quality KPIs (not only an activity type of KPIs) such as asset utilisation. The asset utilisation KPI was not available in 2007-2009 but emerged in 2010. The plan was aimed to switch the mindset of administrators so that they could become good managers of state assets. The performance management system could also be used to drive ministries to better utilise state assets in their offices (C302DS3).*

Table 5.8. Governance in the BSC Implementation Process

Contributing factor for performance governance	Link to the framework	N	%	% of total respondents
Developing a clear leadership framework for performance improvement	Leadership effectiveness	3	23.1%	23.1%
Accommodating governance indicator measurements in the BSC design	Strategy and HRM 'fit'	5	38.5%	38.5%
Promoting values-based performance system	PMS	7	53.8%	53.8%
Promoting periodic evaluation and communication	Performance governance	4	30.8%	38.5%
Emphasising full compliance with the existing rules and regulations in PMS		2	15.4%	

The second contributing factor to performance governance was in form of promoting periodic evaluation and communication and emphasising full compliance with the existing rules and regulations emerged as contributing factor in promoting performance governance in the IMOF. Four interviewees (30.8%) emphasised the need of periodic evaluation and communication to minimise KPI gaming and promote good governance in the BSC implementation. KPI gaming was a phenomenon when the low performer's units asked 'green' label for their performance report to the minister or Echelon I leaders. Several units in the IMOF have promoted periodic evaluation and communication as one of the interviewee remarked:

> *An effort to improve performance based on the BSC was still in the development stage. It was not only Echelon I leader, but also Echelon 2 leaders that expressed appreciation of the BSC concept to improve performance. With regard to mitigating the potential KPI 'gaming', we enforced the periodic monitoring and supervision* (C301AK3).

Another KPI manager stated that performance evaluation should also cover the existing relationship between reward and performance such as grading and remuneration. He commented: "Without a clear impact on their grading, many managers at the Echelon II and III level were not aware of the implementation of the BSC in our unit" (C305ED3).

With regard to the performance governance factor, two interviewees (15.4%) emphasised the need for full compliance with the existing rules and regulations. This applied particularly to the performance management system in the Indonesian public sector based on SAKIP:

*Based on the regulation, the Agency for State Administration [Lembaga
Administrasi Negara-LAN], has issued a specific guidance for the formulation
and reporting of the performance accountability of the government institutions
so called SAKIP [Sistem Akuntabilitas Kinerja Instansi Pemerintah], the
government institutions' accountability performance system. In parallel with
the BSC, the IMOF has applied this guidance for more than five years*
(C315L).

The strategy and HRM 'fit' factor was referred to by five interviewees (38.5%) in terms of accommodating governance indicator measurements in the BSC design. To accommodate the stakeholders' concern towards governance measurements, new KPIs were developed for the IMOF strategy map under the learning and growth perspective. One interviewee made the following observation:

*The Echelon I leader always reminded us to maintain good governance in
terms of transparency and the credibility of the debt management. This value
drove our performance excellence. Our leader provided such a good example
to always 'walk the talk' for the market was always watching our performance
in terms of a clear calendar of Treasury Bonds issuance, transparency in
bond's pricing. In addition, our leader developed a check and balances
mechanism among units under his supervision* (C304MC3).

Another interviewee also made a point about the importance of setting governance indicators in the strategy map to make sure that stakeholders' concerns had been taken into account.

*DG Customs and Excise regarded the minister as the ultimate stakeholder, and
the House Representatives and the society as the customer. Elements of good
governance that were often mentioned by the director-general were efficiency
and transparency. The director-general gave a regular (monthly) update to the
media to maintain sound public relations and transparency* (C309ES3).

Finally, five interviewees (38.5%) noted the leadership effectiveness factor in terms of developing BSC as a clear leadership framework for performance improvement. Before bringing the BSC into the IMOF, the leadership (competency) framework for performance improvement was unclear. Thus, it was difficult to connect leadership with performance. One Echelon III interviewee commented:

*Without a proper leadership competency framework, there was no clarity for
leadership action at any level particularly on cascading the leadership roles
from the central level. This could make room for leaders to develop their own
style and even design policies that were quite different from those of their
successors and this could make the followers confused* (C303AS3).

Factors that challenged performance governance

In order to explore the challenges for promoting performance governance in the IMOF, Question 9 asked: "What were the factors that challenged the sustainability and governance of the BSC-based performance management?". As shown in Table 5.9., five factors were identified as the factors challenging to performance governance in the IMOF. Eleven separate items were mentioned and could be distributed among the four elements of the conceptual framework: leadership effectiveness, strategy and HRM 'fit', PMS and performance governance.

First, the performance governance factor emerged as the most challenging factor to the implementation of BSC. This was revealed by eight interviewees (61.5%) in terms of silo mentality between the Echelon I units in the IMOF, bureaucratic mindset, no internal compliance unit, KKN, IT governance problem and political interest in the public administration. For instance, three interviewees (23.1%) mentioned the silo mentality between the Echelon I units. The silo mentality was also became the major concern of the Finance Minister, Mr. Agus Marto Wardojo, to reform the way the Echelon I leaders managed the ministry's 12 distinct business processes including the current fragmented IT development. An interviewee (7.7%) raised her concern associated with the existence of the fragmented IT governance in the IMOF. Integrating the IT governance throughout the IMOF under the minister's institutional reform agenda might face a challenge particularly in managing unique business processes and characteristic such as the treasury bonds (Surat Berharga Negara [SBN]). The unique IT requirements needed for the different markets/stakeholder under the Echelon I unit control. Thus, the idea of integrating IT has posed many questions, especially on how the integrated IT could be developed and for how long. Furthermore, the interviewee remarked:

> *We could not change our IT without considering its impact on capital transactions and mitigating the risk of ruining the SBN markets. The process of IT integration should never bring problems to our established IT system that might affect market confidence* (C304MC3).

Table 5.9. Factors That Challenged Performance Governance in the IMOF

Challenging factors to performance governance	Link to the framework	N	%	N	% of total respondents
Patronage system	Leadership effectiveness	3	23.1%	3	23.1%
Low quality KPIs: just for remuneration purposes	Strategy and HRM 'fit'	4	30.8%	7	53.8%
No link between performance and rewards		4	30.8%		
No framework for leadership competencies		3	23.1%		
KPI gaming	PMS	2	15.4%	2	15.4%
Silo mentality of the Echelon I units in the IMOF	Performance governance	3	23.1	8	61.5%
Bureaucratic mindset		3	23.1%		
No internal compliance unit and no benchmarks for performance		2	15.4%		
KKN: corruption, collusion and nepotism in practices		1	7.7%		
IT governance problem		1	7.7%		
Bad politics in public administration		1	7.7%		

Another 23.1% of interviewees also mentioned the bureaucratic mindset in the bureaucracy during the reform agenda. The bureaucratic mindset in performance management is the mental framework of civil servants to focus on simply obeying and complying with the regulations or with the direction from the higher rank leaders. The impact of the bureaucratic mindset on the BSC implementation process could be detrimental for performance improvement and could be reflected in the development of the low quality KPIs. One KPI manager said:

> *The chosen KPIs tended to be less challenging, KPI target only determined at the safe mode, easy to achieve, without extra effort. Only a few KPIs have KPI targets such as tax revenues and the state budget, but others KPIs are just typical of 'playing safe' KPIs* (C312MM3).

In order to induce further a mindset change, several units tried to appointed young leaders to the Echelon II or III levels, but this tactic had its own challenges, as one KPI manager stated:

> *Most of the early-promoted [young] Echelons II leaders were not mature enough to become leaders and manage more mature staff than themselves. They tended to do the work alone even though they had many staff members below them* (C305ED3).

With regard to the sustainability of the BSC program, another interviewee (7.7%) mentioned the importance of the compliance unit role in strengthening good governance practice in the organisation. The interviewee explained:

> *In terms of sustainability of the BSC in the IMOF Secretary General's office, we didn't have an internal compliance unit; we just designed the new internal compliance unit to be fully established by 2010. In the mean time, the General Bureau has been appointed as the unit in charge for acting this function for the IMOF Secretary General* (C303AS3).

One interviewee (7.7%) mentioned corruption, collusion and nepotism (*Korupsi Kolusi dan Nepotisme [KKN])* as a continuous threat to the pursuit of good governance in delivering public services. One KPI manager remarked:

> *We still had the potential governance threat known as KKN, specifically in terms of gifts or bribes from the market player in the capital market and financial institutions. This KKN-type behavior became great challenges for our unit* (C307DS3).

Another interviewee (7.7%) mentioned the influence of bad politics to represent the conflict between members of parliament's interest vs government program as another challenge in pursuing performance governance to improve the targeted performance outcomes. One typical response from an interviewee was the potential of the member of parliaments' influence in the budget allocation for selected government programs. The interviewee remarked: "The political pressure [from member of parliament] was quite strong in our unit [DJAPK ~ DG Fiscal Balance]" (C306AY3).

The strategy and HRM 'fit' factor, mentioned by seven interviewees (53.8%), emerged as the second most important factor that challenged the performance governance. This factor was perceived in terms of low quality of KPIs, no link between performance and reward, and no clear framework for the leadership competencies. For instance, with regard to the challenge of using KPIs in the BSC reporting and strategic management, one interviewee mentioned that:

> *The red, green, and yellow signs on the minister's dashboard did not trigger any strategic performance-related response from the leaders, because we have not yet reached the stage of providing immediate rewards and punishments based on strategic performance reports. Many KPIs were classified as low quality KPIs in terms of controllability. Thus, people were not scared about it [put serious effort in improving performance]* (C301AK3).

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The absence of the national leadership competencies framework for staff development and promotion was clearly becoming an issue for the Indonesian leaders in public sector. The outdated HR legislation adopted since the *Orde Baru* era in 1974 was still effective and created systemic challenge for promoting the Indonesian public sector performance governance. As one interviewee mentioned:

> *There is no clear pattern of [leadership] promotion and mutation. Some employees from their entrance as a civil servant, until they had to retire, they served the same positions within the office in one of our unit* (C103AS3).

The leadership effectiveness factor emerged as another challenge to performance governance in the form of the existence of the patron-client system in the process of promoting accountability based on performance under the BSC. This factor was reported by three interviewees (23.1%). One said:

> *The paternalistic leadership attitude at the Echelon I level was very high but it has been greatly reduced, however, at Echelon II levels, the paternalistic leadership attitude is still very high* (C301AK3).

When further asked about the example of the paternalistic leadership attitude as a challenging factor for the performance governance, the same interviewee explained,

> *The Echelon II units retained their core functions and often the loyalty or formality matters outweighed the substance in improving the performance. For instance, some Echelon II leaders still maintained the BSC reporting as such kind of ritual of obedience to their leader, notwithstanding they always asked for a 'green' report for their unit performance* (C301AK3).

The final PMS factor that emerged as a challenging factor for promoting performance governance was in the form of KPI gaming. Two interviewees (15.4%) mentioned that there was some KPI gaming in the IMOF performance management system. KPI gaming was the process by which the organisation members established low quality KPIs that could be easily achieved. In terms of governance principle, the reason of this phenomenon can be various. In addition to those which have been identified under the PMS factor such as the difficulty to define the KPI and lack of proper leadership supervision, there is also a systemic performance governance problem such as too many incompetent employees placed in one unit. For instance, one KPI manager remarked:

I found that there was KPIs' gaming in practice. For instance, to handle the incoming letters, if the KPI was set as the percentage of the letter to be inputted in the system, it would be achievable and easy to achieve. We were not brave enough to set how fast the letter could be inputted in the system, because we would find that we had too many human resources that had been allocated just to do the simple task (C303AS3).

In summary, for the performance management system factor, promoting a values-based performance management system through the BSC, emerged as the most important factor in promoting performance governance in the implementation of the BSC. The promotion of performance governance in the IMOF has been done by defining clearly the IMOF stakeholders in the IMOF-wide strategy map as a clear leadership framework for performance improvement, measuring the stakeholders' satisfaction in the stakeholder survey and promoting periodic performance monitoring and communication, emphasising full compliance with the rules and regulations. However, the performance governance factors in terms of silo mentality between Echelon I units in the IMOF, bureaucratic mindset, no internal compliance unit, KKN, IT governance problems and politics have become the most challenging factors in promoting the IMOF's sustainable performance outcomes through the BSC.

Conclusion

This chapter has systematically reported and classified the KPI managers' perspectives on the BSC implementation process in the IMOF during 2007-2011. It has set out the results of interviews with the KPI managers who looked after the technical aspects of BSC implementation. Leadership was perceived by KPI Managers to be the most significant factor that determined the effectiveness of the BSC implementation in the IMOF to improve performance. Leadership practices were also found to be the key factor in establishing strategy and HRM 'fit', defining the appropriate KPIs for the IMOF performance management and promoting performance governance.

Based on KPI Managers' responses, four significant factors in the successful implementation of the BSC in the IMOF could be identified. These were the personal leadership role of becoming a figure to lead the change and reform agenda; the Finance minister's and all Echelon I's' involvement in the development of organisational strategies to improve performance and enhance the HRM functions and leadership competencies as well as the involvement of all middle and lower managers in the process of cascading the IMOF-wide

strategy map; the use of the BSC as the IMOF strategic performance management system, as a means for performance contracts, performance improvement tool and online performance management system; and promoting value based performance management system based on the BSC.

However, there were also four key factors that challenged the implementation of the BSC to improve the IMOF performance outcomes. Those were leadership performance role in terms of lack of leadership attention and involvement in defining good quality KPIs; difficulty of getting rid of incompetent staff, the fragmented HRM-training, poor link between performance, promotion and rotation, lack of independent KPI managers in the Echelon I units and poor coordination among KPI managers; the existence of the IT problem, lack of staff competence, no performance-based incentive and poor strategy alignment during the transition process of the BSC implementation in the IMOF; and silo mentality between Echelon I units in the IMOF, bureaucratic mindset, no internal compliance unit, IT governance problem, corruption-collusion-nepotism (KKN) in practice and bad politics.

Chapter 6
Analysis of the Findings:
Linking Leadership and Performance in the IMOF

This chapter presents an analysis of the empirical data collected from the perspectives of leaders and KPI managers in the implementation of the BSC in the IMOF in 2010-2011, as well as personal observation and documentary evidence gathered during 2006-2009. The analysis is undertaken in the light of the conceptual framework that was based on the literature review and that postulates a causal link between leadership and public sector performance outcomes (see Chapter 2). In the framework, four factors were identified as core elements or themes that frame leadership roles and BSC processes in mediating the relationship between leadership and performance. These elements are: leadership effectiveness, strategy and HRM 'fit', performance management system and performance governance. All of these elements are interlinked and contributed to the successful implementation of the BSC to improve and sustain performance outcomes. The investigation focused on exploring those four elements in the IMOF reform. Under each of the four elements identified in the conceptual framework, IMOF leaders and KPI managers were asked to identify factors that contributed to or challenged the implementation of the BSC to improve the IMOF's performance outcomes.

The chapter is structured in five parts. First, it examines how far leadership is seen to matter for the BSC in the IMOF. Second, the perceived leadership styles in the IMOF, particularly during the implementation of the BSC 2007-2009, are analysed. Third is the core analysis in this chapter which examines how to improve performance through the BSC in the IMOF based on the IMOF leaders and KPI managers' views on factors that supported and challenged the IMOF leadership in implementing the BSC. Fourth, the chapter sets out an updated conceptual framework from analysis of the findings as a conclusion for this analytical chapter.

Does Leadership Matter? What the Participants Thought

The assumption and demonstration of a link between leadership and performance emerged clearly from the literature review. For this research, the first task is to see what IMOF leaders and KPI managers thought were the most important factors in implementing the BSC. The

factors were linked by the researcher to the four elements from the conceptual framework: leadership effectiveness, strategy and HRM 'fit', performance management system and performance governance.

Both groups overwhelmingly saw leadership effectiveness as the most important requirement for implementing the BSC. As shown in Table 6.1, leadership effectiveness was perceived by 78.9% of the IMOF leaders and 92.3% of the KPI managers as the most important factor in the process of implementing the BSC to improve the IMOF's performance. These results gave an average of 85.6% between both group of interviewees. These figures strongly emphasise the leadership effectiveness was perceived as the most influential factor in the successful implementation of the BSC to improve the IMOF performance outcomes.

Table 6.1. The Most Influential Factors in the Implementation of the BSC

No.	Influential factors (linked to the conceptual framework)	IMOF Leaders	KPI Managers	Average
1	Leadership effectiveness	78.9%	92.3%	85.6%
2	Strategy and HRM 'fit;	57.9%	53.8%	55.9%
3	Performance management system	21.1%	69.2%	45.2%
4	Performance governance	31.6%	7.7%	19.7%
	Total interviewees	19	13	

Other factors were considered significant by Echelon I and KPI managers but none rivalled leadership effectiveness. The second most cited factor in terms of the total number of responses was strategy and HRM 'fit' with over 50% of both groups attesting to its significant role in implementing the BSC. The other two factors gained differential views. KPI managers saw PMS as the second most significant factor, possibly because they were involved on a daily basis in implementation and had to deal with technical issues relating to PMS. Performance governance was seen as unimportant by KPI managers. Only 7.7% mentioned it. This was possibly because of their technical orientation. However, almost one third of Echelon Is saw it as significant, possibly because of their greater involvement in governance issues.

Despite these variations, the dominant view among both groups was that leadership effectiveness was of the highest importance in implementing the BSC.

What Were the Perceived Leadership Styles in the IMOF?

We have established leadership effectiveness as the most important factor in determining the success of the BSC implementation. Now we can ask the question of whether the interviewees recognised a common leadership style. In Chapter 2, three prominent leadership styles were set out. These were transactional, transformational and strategic leadership styles. These are the most common in contemporary literature.

Table 6.2 shows the perceptions of the prevailing leadership styles in the IMOF. The figures are drawn from the responses to the nine questions in the semi-structured interviews. These responses were classified into the three different styles of leadership. The number and percentages in the table represent the Echelon I's perceptions of the Finance minister's style, and the KPI managers' perception of the Echelon I leadership styles. The transactional leadership, which was the traditional type from the bureaucratic heritage, was the most recognised leadership style during the BSC implementation in the IMOF. This was claimed by nine IMOF leaders (47.4%) and six KPI managers (46.2%), or 46.8% as the average of both groups of interviewees.

Table 6.2. Leadership Styles in the IMOF

Leadership style dominance in the IMOF	Interviewees				Average
	IMOF leaders		KPI managers		
Transactional (managerial) leadership style	9	47.4%	6	46.2%	46.8%
Transformational leadership style	5	26.3%	3	23.1%	24.7%
Strategic leadership style	5	26.3%	4	30.8%	28.5%
Total	19		13		

The perceptions of the respondents were very similarly distributed. On average, 28.5% of the two groups of respondents believed that the strategic leadership style was evident during the BSC implementation in the IMOF. There was only 4.5% difference between the two sets of interviewees. Only 24.7% of the average of the two groups of interviewees perceived that transformational leadership style was instigated during the BSC implementation. The difference between the two groups was even narrower, at 3.2%. The major finding that emerges is lack of agreement on the style of leadership that was displayed by the Finance Manager. However, almost half of the respondents did still see the traditional transactional style still much in evidence.

So, while leadership effectiveness was seen as the most important factor for the BSC implementation, there was no agreement on which style prevailed in the interviewees' perceptions of leadership behaviour.

How to Improve Performance through the BSC

Following the findings that leadership is crucial for the success of the BSC implementation in the IMOF, this section provides a systematic answer to the major research question: "How can the BSC be implemented successfully to improve and sustain public sector performance outcomes?". Findings are presented and analysed according to the IMOF leaders and KPI managers' responses to the nine semi-structured interview questions and classified into four elements of the conceptual framework: leadership effectiveness, strategy and HRM 'fit', performance management system, and performance governance (See Chapter 2). Those findings were gathered and tabulated in the form of contributing and challenging factors as perceived by the two groups of interviewees. These were discussed in Chapter 4 and Chapter 5. In the following section, these findings are summarised, the percentage of the responses from two groups of respondents were averaged and then analysed comprehensively.

Leadership effectiveness: leaders' clear vision and commitment vs *rule-based bureaucracy and hierarchy*

Leadership effectiveness is the first element of the conceptual framework in the successful implementation of the BSC developed for this study. This element is analysed thoroughly by reviewing the interviewees' responses to the research questions 2 and 3 (See Appendix A) in the forms of factors that contributed to and challenged the leadership effectiveness in the BSC implementation. The leadership effectiveness as discussed in Chapter 4 and Chapter 5 was divided into leadership masteries that can be framed and linked to each of the element of the conceptual framework in promoting leadership effectiveness in the BSC implementation.

Based on the evidence collected from the perception of the IMOF leaders and KPI managers, personal leadership mastery emerged as the most important factor that contributed to the leadership effectiveness in implementing the BSC in the IMOF. It was expressed in terms of leaders' clear vision and commitment. However, the leadership organisational mastery factor, in terms of the existence of the rule-based bureaucracy and hierarchy, emerged as the most

significant factor that challenged leadership effectiveness in implementing the BSC to improve the IMOF performance.

Leaders' clear vision and commitment

Table 6.3. provides a summary of the IMOF leaders' and KPI managers' responses to the research Question 2 (see Appendix A) concerning factors contributing to leadership effectiveness as discussed in Chapter 4 and 5.

The responses from the two groups of interviewees are summarised and linked to the conceptual framework. The similarity between IMOF leaders' perspectives and KPI managers' perspectives in answering the question was apparent. Both group of interviewees regarded personal leadership mastery as the most important factor that contributed to leadership effectiveness in implementing the BSC and improving the IMOF's performance outcomes.

The performance leadership mastery was perceived as the least important mastery overall. The indicators of this mastery were seen in terms of terms of determining the right strategic objectives and key performance indicators, having commitment for the BSC implementation, having personal character that supported the performance strategy, and internalising the BSC concept in the bureaucracy. The average of both groups was 31.2% with only a 0.8% between the groups. Under the IMOF leaders' and KPI managers' perspectives other leadership masteries were regarded as more important than that relating to performance management.

In pursuit of leadership effectiveness, there was a clear agreement among IMOF leaders and KPI managers on the importance of the personal leadership roles or mastery. Both groups of interviewees considered that the personal leadership mastery was the most significant factor in building leadership effectiveness. It was mentioned by 75.5% on average of the two groups of interviewees. However, the IMOF leaders gave greater importance to it: 89.55% as against 61.5% for the KPI managers.

Table 6.3. Leadership Roles in Implementing BSC to Improve Performance

Contributing factors (leadership roles)	Link to the framework (leadership mastery)	IMOF leaders	KPI man-agers	Average (%)
To provide an example or become a figure to lead change in the organisation (reform)	Leadership effectiveness (personal mastery): **leaders' clear vision and commitment**	89.5%	61.5%	75.5%
To follow the top leader's direction (lead and have a vision)				
To be a role model in performance, knowledge, skills and attitude (have strong conceptual and technical skill)				
To be professional and look for networking				
To maintain high commitment towards integrity				
To be faithful to the top leader				
To lead and have a vision, specifically a long-term vision (cascade vision and define strategic objectives)	Strategy and HRM 'fit' (organisational mastery)	89.5%	38.5%	64.0%
To give followers support				
To provide motivation				
To determine the right vision and mission				
To drive change				
To nurture the best people for the organisation.				
To be a team player with strong conceptual and technical skills				
To pass on or delegate instructions to subordinates				
To establish organisational strategic planning				
To align twelve Echelon I unit's strategies				
To determine the right strategic objectives and performance indicators (KPIs)	Performance management system (performance mastery)	31.6%	30.8%	31.2%
To be committed to the BSC implementation				
To gather people's support for better performance				
To internalise the BSC concept in the IMOF				
To create a value system for the organisation	Performance governance (social mastery)	57.9%	23.1%	40.5%
To eradicate wrongdoings and unlawful actions				
To improve performance				

As shown in Table 6.3, personal leadership mastery was manifested in the forms of willingness of the leader to be a role model for reform, to lead and provide a clear vision for the organisation, to have strong conceptual and technical skill, to be professional and capable of networking, to have high commitment towards integrity and to be faithful to the top leader. These typical personal leadership roles can be directly associated with the quality of leadership in personal qualities and orientation as included in the strategic leadership style.

This involved clear roles to make the vision work with the strategy and to have a balanced between leading and managing for improving performance (Van Wart, 2003; Kaplan and Norton, 2004; Ireland and Hit 2005; Graetz et al., 2006, Bouckaert & Halligan 2008; Daft & Pirola-Merlo, 2009 – See Table 2.3).

Organisational leadership mastery was also regarded as a highly significant factor according to 89.5% of the IMOF leaders. It was not perceived as being nearly so important by the KPI managers with only 38.5% of them mentioning it. However, organisational leadership mastery was counted as the second most important factor (64.0 %) in promoting leadership effectiveness in the implementation of the BSC when averaging the views of all respondents..

In contrast, the two other roles of leadership (performance and social mastery) that can be associated to the PMS factor and performance governance factor in the conceptual framework were perceived by less than 50% on average as contributing to leadership effectiveness in implementing BSC in the IMOF. Leadership performance mastery responses had virtually the same incidence for both groups (31.6% and 30.8%). It was apparent in terms of defining the right KPIs for each cascaded strategic objective, "to be committed for the BSC implementation", "to gather support for better performance", "to internalise the BSC concept". Among other things, the role of leadership to internalise the BSC concept was clearly mentioned and perceived as significant factor that contributed to the success of the BSC cascading process down to the Echelon III level in all units and to the individual level in some offices. It was also mentioned that involvement of the leadership was essential for the allocation of resources needed to support training, infrastructure and the implementation of the BSC software application for performance monitoring and evaluation.

In terms of the leadership social mastery, there were different perceptions between IMOF leaders and KPI managers (57.9% versus 23.1%). IMOF leaders tended to be more aware than KPI managers of the importance of the leadership roles in creating a value system for the organisation, eradicating KKN and unlawful actions in the ministry and improving performance. IMOF leaders and KPI managers perceived the leadership social mastery or performance governance factor differently in its contribution to the leadership effectiveness to implement the BSC in the IMOF.

Rule-based bureaucracy and hierarchy

From the analysis of the two groups of interviewees' responses, as shown in Table 6.4., rule-based bureaucracy and hierarchy was regarded as the most significant factor that challenged the leadership effectiveness. It was perceived by 94.7% of the IMOF leaders and 30.8% of KPI managers, an average of 74.8% for all respondents.

The prevalence of the rule-based bureaucracy and hierarchy was interpreted, especially by significant number of IMOF leaders, as a real handicap for leaders in developing strategic leadership in the bureaucracy. The leadership succession laws and regulations were seen as too rigid and failed to provide enough power to the leaders in an agency or department to hire competent managers and staff or fire incompetent managers and staff. This finding was in line with the previous studies about the Indonesian leadership succession and rule-based bureaucracy particularly when Indonesia still kept an outdated civil service law (McLeod, 2006; Effendi, 2012).

Table 6.4. Factors that Challenged Leadership Effectiveness

Challenging factors to leadership effectiveness	Link to the framework (leadership mastery)	IMOF leaders	KPI managers	Average (%)
Trapped into many technical activities or non-strategic activities	Leadership effectiveness (personal mastery)	31.6%	53.8%	42.7%
Incompetent Echelon IIs and IIIs				
Rigid silo structures and process	Strategy and HRM 'fit' (organisational mastery): **rule-based bureaucracy and hierarchy**	94.7%	30.8%	74.8%
Incompetent staff cannot be sacked				
Change resistance: cronyism and IT problem				
No leadership competency framework				
KPI gaming: avoidance of red label KPIs				
Lack of proper whole-of-ministry strategy and performance management support	Performance management system (performance mastery)	10.5%	61.5%	36.0%
Poor quality of KPIs - lack of leadership attention and involvement				
Systemic corruption	Performance governance (social mastery)	52.6%	46.2%	49.4%
Low demand for innovative and ethical leaders in the bureaucracy				
Patronage: paternalistic-based culture vs performance-based culture				
Bias in KPI measurement: fraud handling				

Leaders in the IMOF indicated that there were at least three problems with the existing laws and regulations for personnel processes and bureaucracy structure. First, the IMOF had difficulty in getting rid of employees or middle level managers with very low performance and very low standards in terms of behaviour. These employees were identified after the assessment for preparing competent staff for the modern offices in several DG such as DG Tax, DG, Treasury and DG Customs and Excises. Second, the organisation did not have flexibility in designing or redesigning the prevailing IMOF leadership structure to better manage public service delivery. The number of leadership positions was determined according to rigid structural rules that applied to all Echelons in all ministries. For example, one directorate could only have a certain or maximum number of divisions and for a division there had to be a maximum number of sub divisions. This type of organisational structure was not conducive to performance-based strategies, because it would be very difficult to adjust the organisational structures when the strategy required the organisation to do so. Finally, the existing laws and regulations did not provide a clear leadership competency framework for leadership succession and appointment. Most leadership appointments were based on available candidates. There was no provision for matching candidates with competencies required for each position.

Each of the other three leadership masteries drew less than an average of 50.0% of the total responses. These masteries that challenged leadership effectiveness in implementing the BSC, were personal, performance and social masteries. There was however, some variation between the two sets of respondents. For example, 52.6% of IMOF leaders mentioned the performance governance factor as against 46.2% of the KPI managers. Personal leadership mastery was noted by 53.8% of KPI managers but only 31.6% of IMOF leaders. However, drew very different responses, only 10.5% of IMOF leaders saw this as significant as compared to 61.5% KPI managers. This high score reflected the technical orientation of these implementation personnel.

These findings were in line with the literature on leading public sector reforms in developing countries such as Indonesia. The IMOF leaders faced great challenges including cynicism and criticism of the way Indonesian bureaucracy behaved; mismatch between policy and personnel practices, especially in recruitment, remuneration, and promotion; the bureaucratic policy-making processes; problematic financial management; complex relations with outside groups; and mechanistic procedures (Toha, 1987; Yudhiantara, 1997; Effendi, 2007;

Sutiyono, 2007; Turner et al., 2009). However, in the absence of a national framework for leadership competencies and with outdated civil service law and regulations, the strong personal leadership mastery showed by the IMOF leaders seemed to be the crucial factor in promoting leadership effectiveness in implementing the BSC to improve the IMOF performance (See Table 6.4).

Strategy and HRM 'fit': performance improvement strategy vs loyalty strategy

The strategy and HRM 'it' is the second element of the conceptual framework for the successful implementation of the BSC to improve organisational performance (see Chapter 2). This factor is analysed by reviewing the data gathered from IMOF leaders and KPI managers particularly on their responses to questions 4 and 5 (See Appendix A) in the form of factors that contributed to and challenged the strategy and HRM 'fit' in implementing the BSC in the IMOF.

Based on the evidence gathered from the perception of the IMOF leaders and KPI managers, leadership collaboration in developing performance improvement strategy emerged as the most important factor for the strategy and HRM 'fit' during the BSC implementation. However, loyalty-based strategy emerged as the most significant factor that challenged the strategy and HRM 'fit' in implementing the BSC.

Leadership collaboration in developing performance improvement strategy

As shown in Table 6.5. the leadership effectiveness factor was mentioned in the form of several responses from the interviewees. These included IMOF strategy as being a result of leadership collaboration, an Echelon I leader as responsible for each Echelon I strategy, and the positive role of the Finance minister in leading the development of the IMOF strategy. The leadership effectiveness factor drew massive support from both groups of respondents. It came up in 94.7% of the IMOF leaders' comments and 100% of those of KPI managers. Interestingly the strategy and HRM 'fit' factor was on average (58.5%) the second most mentioned factor. It included items such as the process of the strategy alignment with HRM that was made by consultants and an ad-hoc team in the IMOF and the IMOF strategy development based on the top-down approach using the BSC approach. The strategy and HRM 'fit' factor was mentioned by 63.2% of the IMOF leaders and 53.8% of the KPI managers.

These findings were in line with a major study of the development of a basic model for 'best fit' strategy alignment (Shields, 2007). It strongly suggested that the development of an appropriate remuneration system should correlate systematically with the process of managing business strategy, the organisational structure, and the shaping of the organisational culture. Under the existing Indonesian personnel regulations on remuneration for civil servants, strong IMOF leadership commitment for reform proved capable of providing an enhanced remuneration policy for the IMOF staff. In addition, the leadership roles was seen as central in promoting alignment between strategy planning for reform and the human resources strategy and practices. For instance, the IMOF leadership roles were noted as significant in promoting leadership collaboration in developing performance improvement strategy based on the BSC and in recruiting consultants to redesign the traditional remuneration policy in the IMOF.

Table 6.5. Factors That Supported the Strategy and HRM 'Fit'

Contributing factors to strategy and HRM 'fit'	Link to the framework	IMOF leaders	KPI managers	Average (%)
IMOF strategy was a result of leadership collaboration	Leadership effectiveness: **performance improvement strategy**	94.7%	100.0%	97.4%
An Echelon I leader was responsible for each Echelon I strategy				
The Minister led the development of IMOF strategy				
Strategy and alignment with HRM made by consultant and an ad-hoc team	Strategy and HRM 'fit'	63.2%	53.8%	58.5%
IMOF strategy based on the BSC was developed by power and delegation				
BSC is used to develop strategic objectives, KPIs and to monitor implementation of the strategy	PMS	78.9%	23.1%	51.0%
Developing stakeholder focus in the BSC system	Performance governance	36.8%	7.7%	22.3%

For the PMS factor, IMOF leaders saw it as far more important in promoting the strategy and HRM 'fit' than KPI managers. 78.9% of IMOF leaders mentioned it as compared to only 23.1% of KPI managers. The reason for this difference was that the involvement of the KPI managers in determining the use of BSC as the strategic performance management tool was minimal. The decision making process was made by TRBP and top leaders in the IMOF.

The performance governance factor, in terms of developing stakeholder's focus in the BSC system, was perceived as less important by IMOF leaders (as mentioned by 36.8%), and recognised as unimportant by KPI managers (only mentioned by 7.7%), possibly because they were focused on following the leadership's instructions.

Overall, the dominant view among both groups was that the leadership effectiveness factor in terms of the performance improvement strategy was of overwhelming importance in promoting the strategy and HRM 'fit' in implementing the BSC.

Loyalty-based Strategy and Multi-based Remuneration System

Table 6.6. provides a summary of the IMOF leaders' and KPI managers' perspectives on challenges in promoting the strategy and HRM 'fit' in the process of implementing the BSC to improve performance. IMOF leaders perceived that the loyalty-based strategy and multi-based remuneration system was the single most important factor that challenged the development of the strategy and HRM 'fit'. Similar percentages of both sets of respondents (63.2% and 61.5%) confirmed this. in the BSC implementation in the IMOF. Other factors were perceived as much less important by IMOF leaders' with less than 25% of respondents referring to them. However, KPI managers perceived that leadership effectiveness factor was significant with just over 50% of respondents identifying it as challenging the development of the strategy and HRM 'fit' during the implementation of the BSC in the IMOF. The strategy and HR management 'fit' factor was noted in terms of non performance-based HRM culture and multi-based remuneration system; too many incompetent employees with no clear firing policy; flaws in individual performance assessment using DP3 system; inverse pyramid training program; strategy follow *tupoksi* (primary task and functions); weak HRM particularly for leaders' recruitment, promotion and rotation; fragmented training program; and lack of KPI managers' coordination and independence.

Different views occurred in relation to challenges to the leadership effectiveness factor. The KPI managers (53.8%) ascribed much greater significance to this factor than IMOF leaders (21.1%). The items mentioned under this factor included rigid regulations due to outdated personnel and public service laws, the need long a TRBP [dedicated team led by Echelon I as a prime mover for reform] unit in the IMOF, poor leadership capacity, and poor quality of KPIs due to lack of leadership attention. The reason for this was possibly that the KPI

managers were the technical managers who found most difficulties in developing good strategy and HRM 'fit' in practice.

Table 6.6. Factors that Challenged the Strategy and HRM 'Fit'

Challenging factors to strategy and HRM 'fit'	Link to the framework	IMOF leaders	KPI mgrs	Average (%)
Rigid regulations: outdated personnel and public service laws	Leadership effectiveness	21.1%	53.8%	37.5%
The need for a TRBP unit in the IMOF				
Poor leadership capacity				
Poor quality of KPIs – lack of leadership attention				
Leadership delegation problem				
Non performance-based HRM culture and multi-based remuneration system	Strategy and HRM 'fit': **loyalty-based strategy**	63.2%	61.5%	62.4%
Too many incompetent employees (no firing policy)				
Flaws in DP3 (performance appraisal) implementation				
Inverse pyramid training program				
Strategy follow "tupoksi" (primary task and functions)				
Weak HRM – leaders' recruitment and promotion, rotation				
Fragmented HRM – training				
Lack of KPI managers' coordination and independence				
IT planning problem	PMS	15.8%	23.1%	19.4%
Poor performance-budgeting-remuneration link				
Lack of parliamentary attention to long-term strategy	Performance governance	15.8%	15.4%	15.6%
Paternalistic culture				

As also shown in Table 6.6, there were similarities between IMOF leaders' and KPI managers' perceptions towards the performance governance factor and the PMS factor. . Both groups saw these as less important factors as compared to the other two factors (leadership effectiveness and strategy and HRM 'fit'). For instance, the governance factor such as lack of parliament's support in developing long-term strategies as well as the existence of the paternalistic culture in strategy development was mentioned by just over 15% of both groups. In addition, the PMS factor was brought up by 15.8% of IMOF leaders and 23.1% of KPI managers. They included such as the IT planning problem in the holding type of organisation

like the IMOF and the poor link between performance-budgeting and remuneration in the Indonesian bureaucracy.

These responses were interlinked. For instance, the biggest problem with the HRM in the IMOF was the difficulty of getting rid of the incompetent staff due to the rigid and outdated personnel laws. These staff then posted in the office without a clear contribution to the offices. There were no breakthrough policies at this time to handle this issue. In addition the use of DP3 for personnel assessment did not encourage communication and leadership coaching. There were no evaluations from peers or subordinates to discuss organisational strategies and achievements. Moreover, this tool was often used to legitimate the superior's control over their subordinates and so maintained a patronage and loyalty-based culture in the bureaucracy.

To some extent this finding also confirmed previous studies that portrayed the Indonesian bureaucracy as still using the inherited and widely practiced loyalty-based strategy rather than a performance-based strategy (Crawford & Hermawan, 2002; Crawford, 2003; Turner et al., 2009). In addition, due to these challenging factors, the performance horizon for public sector strategic planning tended to be very short term.

Performance management system: the BSC as strategic PMS tool vs leadership competencies and IT issues

The performance management system is the third element in the conceptual framework for the successful implementation of the BSC in the public sector (See Chapter 2). This element is analysed by reviewing the data gathered from IMOF leaders and KPI managers, particularly their responses to questions 6 and 7 (See Appendix A) on the factors that contributed to and challenged the implementation of PMS based on the BSC in the IMOF.

Evidence that was gathered during the implementation of the BSC, both from the perspective of the IMOF leaders and KPI managers, revealed that the PMS factor in terms of the use of BSC as the strategic performance management system tool was the most important factor that contributed to the success of implementing the BSC in the IMOF. However, leadership competencies and IT issues emerged as the most important factor that challenged the application of the BSC as PMS to improve the IMOF performance.

The BSC as strategic PMS tool

Table 6.7 presents a summary of the perceptions of IMOF leaders and KPI managers on research question 6 which asked them to identify factors that supported the success of implementing the BSC as PMS in IMOF.

Table 6.7. The BSC Role in the IMOF

Contributing factors (BSC roles)	Link to the framework	IMOF leaders	KPI managers	Average (%)
Accountability tool for performance	Leadership effectiveness	36.8%	38.5%	37.7%
Cultural change tool: performance-based culture				
Individual performance measurement and assessment	Strategy and HRM 'fit'	57.9%	15.4%	36.6%
Strategy alignment and transformation tool				
Strategic planning tool and strategy alignment				
Performance improvement tool	**PMS: BSC as strategic PMS tool**	100.0%	84.6%	92.3%
Performance management system				
Methods for performance contract				
Strategic performance management system				
Online performance management system				
Performance monitoring (trajectories)	Performance governance	31.6%	46.2%	38.9%
Performance evaluation and monitoring				

From the analysis, as shown on the Table 6.7, significantly all IMOF leaders (100%) and 84.6% of the KPI managers (or 92.3% of the average of the two groups) perceived that the BSC was intended to act as a PMS strategic tool to improve performance outcomes in the IMOF. This was the most important factor supporting the successful implementation of the BSC in the IMOF. Both groups of interviewees typically perceived that in the IMOF, the BSC was implemented as a performance improvement tool, a method for performance contracts, a strategic performance management system, performance management system or an on-line performance management system. These findings support Bryson (2003), that the use of BSC as the tool for the organisational performance management system directly increased the system thinking among leaders in the IMOF for improving performance.

The performance governance factor was perceived as the second most important factor in successful implementation of the BSC as PMS in the IMOF. It was mentioned by 46.2% of KPI managers and 31.6% of IMOF leaders or 38.9% average of the respondents from the two groups. This finding was in line with the policy of delegating the implementation down to the KPI managers or SMOs under each Echelon I in the IMOF. The performance governance factor was perceived to be the use of the BSC as a performance monitoring and evaluation.

Different perspective between IMOF leaders (57.9%) and KPI managers (15.4%) occurred on the strategy and HRM 'fit' factor. This can be explained by the IMOF leaders' broader concern with the development of the IMOF strategy and the alignment of the strategic objectives with the HRM to sustain the IMOF performance outcomes. By contrast, KPI managers were concerned with more on technical and day-to-day aspects in the implementation of the BSC. This difference also reflected the lack of a clear leadership framework at the operational level in the BSC implementation stage for cascading the IMOF-wide strategy map down to the lower units in the IMOF. By the time of the study, the process of cascading also was down to Echelon III level and only some units had reached the individual level. Thus, linking individual and IMOF performance could not yet be established.

The leadership effectiveness factor was perceived by both groups of interviewees a significant factor by similar percentages of respondents from both groups. On average, 37.7% considered that the role of the BSC could be as a leadership accountability tool for performance outcomes and a cultural change tool to produce a performance-based culture.

Overall, the dominant opinion of the two groups for the PMS element of the conceptual framework was that applying the BSC as a strategic PMS tool was the most important factor in the successful implementation of the BSC in the IMOF. Applying BSC as a strategic PMS tool meant that the performance measures (KPIs) which were developed in each organisational unit in the IMOF were linked to the strategic objectives determined by leaders in the IMOF-wide strategy maps.

Leadership competencies and IT issues

Table 6.8. summarises perceptions of IMOF leaders and KPI managers to research question 7 that sought to identify factors that challenged the implementation of the BSC in the IMOF.

Leadership effectiveness was overall the most widely reported challenging factor as perceived by 52.6% of IMOF leaders and 30.8% KPI managers, an average of 41.7%. It was perceived by both groups of interviewees in terms of lack of leadership supervision in the BSC implementation, leadership only complying for the sake of formality, resistance to the BSC, lack of leadership follow-up on BSC reporting and evaluation, and supervision problems during the cascading of the BSC.

The two groups of respondents perceived matters very differently on the strategy and HRM 'fit' factor. For KPI managers, this was the most important factor that challenged the implementation of the BSC in improving performance. There were 69.2% of KPI managers who strongly mentioned the strategy and HRM 'fit' factor. However, only 10.5% of the IMOF leaders agreed with this. This factor was mentioned in terms of leadership competencies and IT issues in implementing the BSC by KPI managers who pointed to: the existence of several performance information system in the IMOF; the static nature of the BSC system; lack of leaders' and employees' competence with regard to the BSC; lack of incentive based on performance; leaders did not use it extensively; and poor strategy alignment during the first three years of implementation. In connection with the development of the organisational performance information management system and infrastructure in all 12 IMOF portfolios; the special expert of the Indonesian Finance Minister for System Information and Technology noted that several subsystems existed. These systems, he said, created silos in the management of the IT infrastructure and policies in the ministry and had been of concern over the last five years.

The proportion of IMOF leaders and KPI managers who mentioned the PMS factor as a challenge to the BSC implementation were virtually identical. It was pointed to by 26.3% of IMOF leaders and 23.1% of KPI managers or an average of 24.7%. Under this category the challenges were perceived in the forms of focus on the BSC reporting without necessarily following-up, poor quality of KPIs and KPI gaming seen in setting low targets for KPIs in order to make green status on performance reporting.

Table 6.8. Factors that Challenged the BSC Implementation in the IMOF

Challenging factors to the BSC implementation	Link to the framework	IMOF leaders	KPI managers	Average (%)
Lack of supervision	Leadership effectiveness: **Leadership competencies and IT issues**	52.6%	30.8%	41.7%
Compliance for the sake of formality				
BSC resistance				
Lack of leadership follow-up after performance meeting				
Supervision problems in implementing and cascading the BSC				
Several performance information systems	Strategy and HRM 'fit'	10.5%	69.2%	39.9%
The static BSC				
Lack of competence in implementing the BSC				
No incentive based on performance				
IT problem: leaders didn't use it				
Poor strategy alignment				
Focus on BSC reporting without follow up	PMS	26.3%	23.1%	24.7%
Lack of follow-up program and limited use of the BSC				
KPI gaming				
Poor quality of KPIs				
Patronage	Performance governance	36.8%	15.4%	26.1%
Organisational (bureaucratic) culture and mindset problem				

There was variance between the two groups in considering the performance governance as a challenging factor in implementing the BSC. More than one third (36.8%) of the IMOF leaders perceived performance governance factor as a factor that challenged the BSC implementation. By contrast, only 15.4% of KPI managers mentioned it. Both group of interviewees considered that factors such as patronage, organisational (bureaucratic) culture and mindset problem could limit the implementation of the BSC as PMS in the IMOF. These were often broad strategic matters that were of more concern to IMOF leaders. This explains the greater reporting of them by this group.

The perceptions of participants on supporting and challenging factors for BSC improvement provided a mixed bag. There were similar but low proportions from each group that mentioned PMS. However on the other factors there was variation, sometimes very large.

There were also many issues raised. One possible interpretation is that there was little agreement on implementation issues in IMOF and although where one was located in the organisation could have an impact, perceptions on the matter were diverse even within groups.

This empirical evidence supports earlier studies that predicted the implementation of the BSC in the public sector, especially in the Indonesian context, may face many challenges for leadership in cascading BSC down to the individual level, especially with regards to utilising the appropriate leadership style in unreceptive national and bureaucratic cultures (Sutiyono, 2007; Rhodes et al., 2008; Umashev & Willett, 2008; Turner et al., 2009). Furthermore, the data suggest that without leadership competencies and proper IT infrastructure for operating the BSC software, the implementation of the BSC can be time-consuming and would lack leadership support, particularly where several performance information systems already exist.

Performance Governance: Stakeholder Focus Strategy vs Silo Bureuacrats' Mentality

Performance governance is the fourth element in the conceptual framework for the successful implementation of the BSC in the public sector (See Chapter 2). This element is analysed by reviewing the interviewees' responses to the research questions 8 and 9 (See Appendix A). These questions looked for factors that contributed and challenged the performance governance in the process of implementing the BSC in the IMOF.

Based on the evidence collected from the perception of the IMOF leaders and KPI managers, stakeholders' focus strategy emerged as the most important factor that contributed to pursuing the performance governance in the BSC implementation in the IMOF. However, silo bureaucratic mentality was perceived by both groups of interviewees as the most significant factor that challenged the performance governance during the implementation of the BSC in the IMOF.

Stakeholder focus strategy

Table 6:9. presents a summary of the perception of IMOF leaders and KPI managers in response to research question 8 (See Appendix A) which asked respondents to identify factors that supported the implementation of the BSC governance performance in IMOF.

Table 6.9. Factors That Supported Performance Governance

Contributing factors to performance governance	Link to the framework	IMOF leaders	KPI managers	Average
Developing leadership awareness about politicians' political agenda Linking leadership with performance Developing a clear leadership framework for performance improvement	Leadership effectiveness	52.6%	23.1%	40.6%
Developing stakeholders' perspectives in the IMOF strategy map Complying with the existing rules and regulations in strategic planning Installing good governance indicators in the learning and growth perspective in the BSC strategy map	Strategy and HRM 'fit': stakeholders' focus strategy	100.0%	38.5%	69.2%
Promoting a values-based performance management system Aligning strategy and performance measurements in the BSC system	PMS	31.6%	53.8%	42.7%
Promoting periodic (sustaining) performance evaluation and communication Eliminating corrupt practices Emphasising full compliance with the existing rules and regulations in PMS	Performance governance	84.2%	38.5%	61.4%

There were significant different perception between IMOF leaders and KPI managers in promoting performance governance in the BSC implementation in the IMOF. All IMOF leaders (100%) mentioned strategy and HRM 'fit' as an important factor in achieving performance governance in the BSC implementation. The most mentioned factors by KPI managers (53.8%) was PMS. For KPI managers, the strategy and HRM 'fit' was the second most reported factor that challenged performance governance. Just over one third reported this factor. The reason for these different perceptions was most probably due to the focus of the IMOF leaders on strategy creation that included the stakeholder's perspective and on strategic planning in general. By contrast, the KPI managers tended to focus more on technical issues about promoting a values-based performance management system and aligning strategy and performance management in the BSC. Gaining a 69.2% average over the two groups, the strategy and HRM 'fit' factor in terms of stakeholders' strategy emerged as the most significant factor that contributed to performance governance in the implementation of the BSC in the IMOF. However, caution needs to be taken with this

average as it greatly reflects that all IMOF leaders mentioned it while only 38.5% of KPI managers did.

The second most cited factor was performance governance. But, once again there were major difference between the groups with 84.2% of IMOF leaders and 38.5% of KPI managers attesting to its significant role in promoting performance governance in the BSC implementation. The performance governance factor was perceived in terms of three processes: sustaining performance evaluation and communication; eliminating corrupt practices and emphasising full compliance with the existing rules and regulations in the PMS.

With regard to the leadership effectiveness factor and the PMS factor, there was less but still significant difference between the groups. Each factor was reported by good numbers of the total of participants. PMS was in fact the most mentioned factor by the KPI managers (53.8%), a reflection of their technical orientation but only 31.6% of IMOF leaders talked about it. By contrast, a majority of IMOF leaders (52.6%) mentioned leadership effectiveness as against 21.3% if KPI managers. Once again, these different views seem to represent the different orientations of these groups. The IMOF leaders were more concerned with strategy while the KPI managers focused on technical implementation matters. One can certainly conclude from the responses that a wide variety of issues had to be addressed when implementing BSC in IMOF.

The leadership effectiveness factor was perceived in terms of three concerns: developing leadership awareness about the national political agenda particularly regarding bureaucracy reform; linking leadership with performance in the bureaucracy; and developing a clear leadership framework for organisational and individual performance improvement.

The PMS factors was seen in terms of promoting a values-based performance management system and aligning strategy and performance measurements in the BSC system.

Silo bureaucrats' mentality

Table 6.10. presents a summary of the responses of IMOF leaders and KPI managers to question no. 9 that sought to identify factors that challenged the performance governance in the BSC implementation in IMOF.

The most cited challenging factor was performance governance especially in terms of silo bureaucrats' mentality in the patronage culture in Indonesian public service. This factor was mentioned the most by IMOF leaders (89.5%) and KPI managers (61.5%), an overall average of 75.5% of respondents.

Table 6.10. Factors That Challenge Performance Governance

Challenging factors to performance governance	Link to the framework	IMOF leaders	KPI managers	Average (%)
Lack of national leadership exemplar	Leadership effectiveness	73.7%	23.1%	48.4%
Patronage-based vs performance-based accountability				
Inflexible organisational structure	Strategy and HRM 'fit'	31.6%	53.8%	42.7%
IT and infrastructure problem				
Dynamic BSC performance measurement				
No framework for leadership competencies				
Low quality of KPIs (just for remuneration purposes)				
No link between performance and rewards				
Problems in measuring fraud	PMS	31.6%	15.4%	23.5%
KPI gaming				
Silo bureaucrats' mentality (among the Echelon I units in the IMOF)	Performance governance: **silo bureaucrats' mentality**	89.5%	61.5%	75.5%
Corrupt mindset problem				
IMOF reform in the context of unreformed national bureaucracy				
Integrity dilemma in the compliance-based bureaucracy				
No compliance unit and no performance benchmark				
Bureaucracy mindset (focus on process and patronage)				
KKN: corruption, collusion and nepotism				
IT governance problem				
Political interference in public administration				

Both groups of interviewees reported nine matters relating to performance governance factor: silo bureaucrats' mentality in the patronage culture in the Indonesian public service, corrupt mindset problem; IMOF reform in the context of unreformed national bureaucracy; integrity dilemma in the compliance based bureaucracy; no compliance unit and no performance benchmarks; bureaucratic mindset that focused on process and patronage; corruption, collusion and nepotism; IT governance problem; political interference in public administration.

Leadership effectiveness emerged as the second most cited factor with an average of 48.4% of respondents noting it. However, there were very different reporting patterns between IMOF leaders and KPI managers about the leadership effectiveness factor. IMOF leaders saw that leadership effectiveness factor as very important as it was mentioned by 73.7% of them as against only 23.1% of KPI managers.

The leadership effectiveness factor was reported in terms of lack of lack of national leadership exemplar and the existence of patronage based accountability in the Indonesian public service. The KPI managers perceived the strategy and HRM 'fit' factor (53.8%) as more important than the leadership effectiveness factor (23.1%). The reason for this possibly that the KPI managers tended to face the inflexible organisational structure, IT and infrastructure problems, low quality of KPIs and no link between performance and rewards in managing the technical process of monitoring and evaluating performance based on the BSC in the IMOF. Not facing these issues on a daily basis probably explains why less than one third of IMOF leaders mentioned this factor.

The PMS factor in terms of problems in measuring fraud and KPI gaming was perceived by both IMOF leaders and KPI managers as the least important factor in terms of the average of all responses (23.5%). However, there were differences between the groups with the PMS factor getting very low mention by KPI managers (15.4%) but much higher (31.6%) by IMOF leaders.

Overall, both groups held the dominant view that the silo bureaucrats' mentality was the highest important factor that challenged the performance governance in implementing the BSC in the IMOF.

Leadership framework for improving performance

After examining the IMOF leaders and KPI managers' perspective, it is now evident that the conceptual framework as discussed in Chapter 2 has only partial fit in answering the main research question. What need to be added are the contributing and challenging factors that affect each element of the conceptual framework. Thus, updating the conceptual framework by accommodating those factors as reported by IMOF leaders and KPI managers is necessary to convincingly answer the main research question. By adding the contributing and challenging factors to the original conceptual framework, the relationship between leadership and performance in the IMOF can be better explained (see Figure 6.1). The figure now has power to explain how the IMOF leaders and KPI managers framed the roles of leadership in relation to improving performance management through the BSC. This enables giving an authoritative answer to the main research question of this study: "How can BSC be implemented to improve the IMOF performance?".

The updated framework has been developed based on the fundamental finding that IMOF leaders and KPI managers perceived leadership to be the key determinant for gaining superior organisational performance outcomes in the IMOF. As shown in this chapter, detailed analysis of the perceived relationship between leadership and performance was strengthened by four main key enabling factors. These four factors emerged from analysis of the detailed comments of respondents. The four factors were leader's clear vision and commitment, performance improvement strategy, BSC as strategic PMS tool; and implementing the stakeholders' focus strategy. By the same analytical process four significant challenges were identified in the process of implementing the BSC to improve the IMOF performance outcomes. These were Indonesian rule-based bureaucracy and hierarchy; a loyalty-based strategy and multi-based remuneration system, leadership competencies and IT issues in implementing the BSC; and silos bureaucrats' mentality in the process of reforming the IMOF bureaucracy.

These findings support and add knowledge to my earlier definition that postulates leadership is about how a person, in his/her position, possessing certain characteristics, provides influence in the process of achieving the organisational results. Thus, in the context of implementing the BSC to improve the IMOF performance outcome, a leader's influence on people and process matter. It has also been found that the four sets of leadership roles or masteries as offered by the strategic leadership concept were central in promoting the

leadership effectiveness in the implementation of the BSC to improve the IMOF'
performance outcomes (Ireland & Hitt, 2005; Umashev & Willet, 2008; Kaplan 2012).

Figure 6.1. An Updated Conceptual Framework to Implement the BSC

(Leadership Framework for Improving Performance)
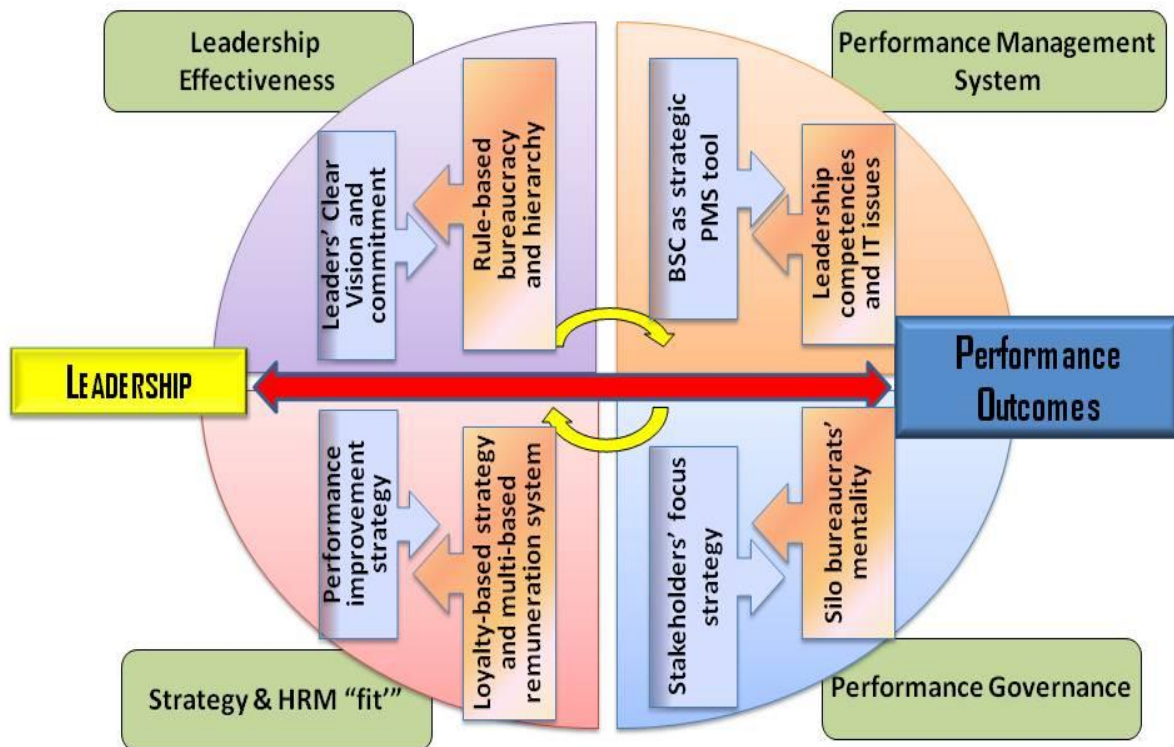
These four key leadership masteries and four stages of the BSC implementation process were
framed into four elements, including contributing and challenging factors, of the leadership
framework for improving performance (Figure 6.1): leadership effectiveness, strategy and
HRM 'fit', performance management system and performance governance. Overall, the most
significant factor that may influence the performance outcomes is leadership.

IMOF's performance outcomes

If, as has been demonstrated, leadership was the most important element in the BSC implementation, then we would hope to find that the reported exercise of this leadership was seen in concrete performance gains. In this section, this relationship will be investigated by elucidating whether performance gains actually occurred. Three specific outcomes will be investigated: improvement in performance as measured by the BSC, public service delivery as measured in the customer feedback and good governance as reflected in corruption indicators. With regard to the performance improvement as the first outcome, the IMOF performances were clearly identified after the implementation of the BSC reporting particularly in the DG Tax, DG customs and DG Treasury as the three biggest directorate generals in the IMOF. By making structural alignment between reform in HRM and the modernisation of major offices, in tax, customs and treasury throughout Indonesia, the IMOF leadership was successful in improving its business processes strategies.

The Finance Ministry published details of improvement through more than 35 initiatives in 2007 and many more in 2008 on streamlining the administration processes for delivering key public services. Examples include reduction of the time taken for Tax File Number registration from three working days to one working day; the tax appeals procedure from 12 months to nine months; and refunds for custom duties from no specific time to a maximum of 30 days (see Chapter 3). Such performance improvement was perceived by the vast majority of IMOF leaders and KPI managers (See Table 6.8) as a result of the use of BSC as the IMOF's strategic performance management system tool. By clearly identifying the strategic objectives and KPIs through the BSC approach, the IMOF leaders could manage to improve the targeted performance outcomes. The IMOF data thus supported the existing literature that with clear leadership vision and commitment, the BSC can be powerful tool to improve performance in the public sector (Kaplan and Norton, 2004a; Estis, 1998).

With regard to public service delivery improvement that would be measured through the customer satisfaction survey, a new organisational concern for stakeholder was apparent in the IMOF-wide strategy map under the BSC approach. Reputable Indonesian universities did independent researches in 2007, 2008, and 2009 to measure customer satisfaction, a rare occurrence until then (IMOF, 2010). The result showed that the IMOF reforms were making significant progress according to customers. This was counted on average per unit under the ministry portfolio and throughout the major cities in Indonesia. Overall, this reflects levels of

more than 63% in 2007 and more than 71% in 2009 in terms of public confidence and satisfaction with the bureaucratic reform outcomes. It seemed that the pilot of Indonesian bureaucratic reform progress in the Ministry of Finance 2007-2008 was on the right track. It had apparent success in cutting red tape, increasing accountability for achieving results, putting customers first, and empowering public service to get results. However, several corruption cases following the reform agenda, gave a clear signal that there were still much more work to be done in maintaining consistent implementation of reform in the bureaucracy.

Finally, with regard to improving the good governance, the IMOF reform agenda can be gauged, in part, by the intention to link the leadership's effort to achieve good governance with the success of corruption eradication policy in Indonesia. As indicated by Table 6.11. below, the ranking of corruption perception index that representing the international perspective towards leadership effort of the country to eradicate corruption showed that Indonesia's performance has been improving from a score of 2.3 in 2007 to 2.8 in 2010. Also the country moved up the rankings from the 143rd position in 2007 to 110th position in 2010. Transparency International (2011) noted that:

> *Bold reform in the tax and custom administration and the ability of Corruption Eradication Commission to bring forward high profile cases have recently bolstered the perception that corruption is being addressed more aggressively... (Transparency International 2011).*

Table 6.11. Indonesian Corruption Perceptions Index

2007	2008	2009	2010
Ranking 143	Ranking 126	Ranking 111	Ranking 110
Score 2.3	Score 2.6	Score 2.8	Score 2.8

Source: Transparency International (2007-2010)

The findings from this study also revealed that the implementation of the BSC to improve performance in the IMOF could be unsuccessful if four challenging factors such as result of the reform were not be tackled by the leadership. Those factors were: rule-based bureaucracy and hierarchy; loyalty-based organisational culture rather than performance-based, and linked to a remuneration system relying on the allocation of extra allowances; poor leadership

competencies regarding IT issues in the BSC implementation and silo bureaucrats' mentality that worked against cooperation and coordination.

To address these and other challenges to reform success, the newly appointed minister, Mr. Agus Martowardojo endorsed further institutional reforms and organisation culture transformation in the IMOF since 2010. One reform was continuation of the process of cascading organisational performance down to the individual level. Another reform was to promote a set of whole-of-IMOF values for managing performance.

In summary, the evidence gathered from the in-depth interviews with IMOF leaders and KPI managers and analysed in this thesis has contributed significantly to improving the existing conceptual framework for successful implementation of the BSC in the public sector. Thus, the updated conceptual framework now can be proposed as a comprehensive model for promoting the successful implementation of the BSC in the IMOF to improve performance sustainably. The findings from the interviewees' perspective have improved the previous conceptual framework by developing the nature of the relationship between leadership and performance. The updated model recognises, in each of the four elements of the conceptual framework, factors that supported and challenged leadership in the success of implementing the BSC to improve the IMOF performance outcomes. The four key enabling factors contributing to the success of the BSC implementation were perceived by IMOF leaders and KPI managers as promoting leader's clear vision and commitment, developing performance based strategy, implementing the BSC as a PMS tool and maintaining stakeholders' focus strategy. In addition, the four major challenges in implementing the BSC were perceived by IMOF leaders and KPI managers in terms of the rule-based bureaucracy and hierarchy; a loyalty-based strategy and multi-based remuneration system, leadership competencies and IT issues; and silos bureaucrats' mentality surrounding the current leadership practices. Sustainable performance should be the outcome of leaders in accentuating the contributing factors and dealing with the challenging factors properly.

Chapter 7
Summary and Conclusion

This chapter presents a summary of the preceding chapters of this thesis to demonstrate the logical progression of this research. Drawing on this research, it also seeks to answer the main research question "How can the BSC be implemented successfully to improve and sustain public sector performance outcomes?"

As previously stated, many scholars and practitioners interested in finding ways to improve public sector performance. In recent years, considerable attention has been paid to performance management reforming the public sectors to narrow the knowledge gap with aim of improving performance. Performance management and innovative approaches like BSC have been used to engineer change and improve performance of public sector organisations. Also, attracting much academic and practitioner attention in recent years has been leadership. Often it has been portrayed as a key element of organisational success. This research examined the relationship between leadership and performance in the process of the BSC implementation in the IMOF.

Much research has asserted that there is a strong relationship between leadership and performance. This was identified in Chapter 1. This finding has been incorporated into the BSC. However, no research has actually demonstrated the relationship between leadership, BSC and performance in a large and multi-objective public organisation in a developing country. This thesis has filled some of the knowledge gap on these relationships and makes significant contribution to advancing the knowledge of the causal links between leadership and performance in the implementation of the BSC approach. This new knowledge can be used to improve government performance in the developing countries such as Indonesia.

Included in Chapter 1 is a section about the case study methodology that has been adopted in this study in order to answer the research question. This research has been done by expanding the exploratory case study methodology on the implementation of the BSC in a large and multi-objective public sector organisation in Australia done by Umashev and Willet (2008). In the research world, access to the public sector leaders is often very difficult. However, in this thesis, the use of an exploratory-explanatory approach with the full involvement of both

IMOF leaders and KPI managers greatly enhanced the validity of the research and the robustness of the findings. The research map was developed based on the constructionist epistemology that justifies the selection of the case study methodology for this study. The conceptual framework that postulates the relationship between leadership and performance outcomes in the implementation of the BSC in public sector was established based on the literature review. The framework was used as guidance in asking research questions and examining data on the factors that supported and challenged the process of implementing the BSC in the IMOF that derived form those research questions in this study.

Chapter 2 provides a literature review on the relationship between leadership and performance using two main approaches, the strategic leadership theory and the BSC concept. Leadership was found to be key factor in sustaining superior organisational performance outcomes. It was posited that the BSC in the hands of strategic leaders would provide them with a set of performance measures that would give them a fast and comprehensive view of strategic business performance and how to attain and sustain it (Kaplan & Norton, 1996, 2001). It was also demonstrated that although the BSC was initially designed for the private sector, through its evolution in six iterations it has become a performance tool that can be of use to the public sector. With greater sophistication and the inclusion of more items such as synergies between elements and clearer alignments between organisational components, the BSC was judged to have become more user-friendly for public sector leaders. However, caution still must be exercised as it was seen that public service missions, obligations, relations with governments, accountability requirements and electoral cycles all required consideration when designing and implementing BSC in the public sector.

To successfully implement the BSC approach to improve the public sector organisational performance a need was identified to link strategic leadership theory and the BSC concept. Four key conceptual elements emerged as a result of the literature review: leadership effectiveness, strategy and HRM 'fit', performance management system and performance governance. Leadership effectiveness is the first element that mediates the relationship between leadership and performance outcomes. The leadership effectiveness element was found to be closely associated with personal leadership mastery in the first stage of the process of implementing the BSC approach in public sector organisation to improve performance. The leadership effectiveness was seen to be achieved when the personal

qualities, orientation and the leadership styles supported leaders in determining a clear organisational vision.

Strategy and HRM 'fit' was identified as the second element that mediates the relationship between leadership and performance outcomes. This element is closely associated with the organisational leadership mastery in the second stage of the BSC implementation process: developing human capital and organisational culture. The organisational leadership mastery, in terms of process and structure, organisational agility, leadership succession and staff empowerment, should be aligned with the strategy to improve performance under the BSC approach. The strategy and HRM 'fit' can be supported by leadership in developing the remuneration system, organisational structure and culture that should all be aligned with the organisational strategy to improve performance.

The performance management system was identified as the third element that mediates the relationship between leadership and performance outcomes in the process of implementing the BSC in the public sector. This element frames the performance leadership mastery in maintaining competitive advantage and sustaining performance excellence as well as promoting innovative leadership in the third stage of the BSC implementation to establish the balanced organisational performance controls. The literature suggested that the use of BSC as a performance management system would increase systems thinking and promote the alignment of the strategic and operational performance measures to improve performance.

Performance governance was identified as the fourth element that mediates the relationship between leadership and performance outcomes in the process of implementing the BSC in the public sector. This element frames the governance leadership mastery in promoting shared values and vision among organisational members and promoting strategic alliances with stakeholders in the fourth stage of the BSC implementation stages: strategy monitoring and evaluation to promote better organisational values-based outcomes. The performance governance can be promoted by leaders in sustaining the organisational performance outcomes.

After reviewing literature on the role of strategic leadership theory and the BSC concept in improving public sector performance outcomes, nine secondary research questions were identified to guide the research in exploring the IMOF leaders' and KPI managers' perspectives towards four factors in the conceptual framework (see Chapter 2 and Appendix

A). Thus, the presentation of the findings of interviews in Chapter 4 and 5 were framed under the nine themes:

1. Factors contributing to the success of the BSC implementation;
2. The role of leadership in implementing the BSC;
3. Factors which challenged for leadership effectiveness;
4. Developing strategy and aligning HRM with IT based on the BSC approach;
5. Factors which challenged the strategy management and HRM 'fit',
6. The BSC role in the IMOF;
7. Factors which challenged the implementation of the BSC;
8. Promoting good governance in the IMOF performance management system, and
9. Factors which challenged governance in the IMOF performance management system.

Chapter 3 provided the context of the study in line with the argument from Turner and Hulme (1997) that public sector reform is always evident in developing countries but its design and implementation will be heavily influenced by the environment in which these activities take place. The government of Indonesia implemented public sector reform in each era of national leadership in various magnitudes according to the degree of the problems, capacity for reform, commitment to reform, the priority of such reforms, and the influence of multiple stakeholders. The reforms studied in this thesis covered the period of public financial management reform of 2003-2006, but were also concerned with the bureaucracy reform of 2007-2014. In these reform periods the government adopted some items from the New Public Management (NPM) paradigm, especially concerning public financial management. NPM derived its inspiration from the private sector and essentially involved applying management techniques developed for business to public sector organisations. Thus, the BSC was designed for private sector organisations and was transferred to the public sector as a market-based management mechanism of NPM.

Responsive and professional practices in public financial management helped the Indonesia economy to be resilient in maintaining economic growth in the global financial crisis and ensuing international finance turbulence (IMOF 2010). One obvious achievement was the implementation of a strategic performance management system based on the BSC approach from 2007 onwards. This chapter provided background about the importance of the IMOF bureaucracy reform agenda, particularly in implementing a strategic performance management system based on the BSC approach. The chapter suggested that there were

significant leadership roles during the reform initiative particularly on designing and evaluating strategy and KPIs based on the BSC to improve performance outcome. The importance of strategic leadership in performing these tasks was stressed.

Chapter 4 presented empirical data gathered for the research. It explored the perspectives of IMOF leaders in the process of implementing strategic performance management based on the BSC approach in the Indonesian Ministry of Finance during 2007-2011. It set out the results of interviews with 19 IMOF leaders, mainly executive level officials at the Echelon I, level regarding their perspectives on the implementation of the BSC in the IMOF. The most important finding was that leadership was perceived by IMOF leaders as the most significant factor in the success of the BSC implementation in the IMOF.

Having established that leadership was seen as the most important factor in successful BSC implementation, the next task was to explore this relationship in more detail. To do this, the research took each of the four key elements of the conceptual framework linking leadership and performance and sought opinions on factors that contributed to successful BSC implementation and factors that challenged it.

IMOF leaders perceived the organisational and personal leadership masteries as significant contributing factors in the agenda of improving performance. In addition, collaboration among unit leaders in developing strategy was regarded as important in terms of realising the overall organisational vision, mission and strategy. The use of the BSC in the IMOF was regarded by the leaders as significant for improving the IMOF's performance. Furthermore, incorporating stakeholders' perspectives into the IMOF strategy map, sustaining evaluation and eliminating corrupt practices in the bureaucracy were also considered as important matters for promoting performance governance and improving the IMOF performance outcomes.

Chapter 4 also set out the challenging factors to leadership for improving performance, as reported by the IMOF leaders. There were four major challenges identified by all interviewees as follows. First was the organisational factor of the Indonesian rule-based bureaucracy and hierarchy. This was said to be manifested in a rigid organisational structure, too many incompetent staff, change resistance among staff and lack of a leadership competencies framework. The latter was identified as one of the most challenging factors for promoting leadership effectiveness in implementing the BSC and improving performance.

The second challenging factor identified by the IMOF leaders was the loyalty-based strategy and remuneration system involving the allocation of additional allowances. This factor was considered as the most challenging factor in developing sound strategy and HRM 'fit' in the implementation of the BSC system to improve performance. The third factor was unsatisfactory leadership competencies in relation to the IT issues in implementing the BSC. This was also considered as one of the most challenging factor in developing PMS in the IMOF to improve performance. The fourth factor reported by the IMOF leaders was the bureaucrats' silo mentality especially as seen in a culture of patronage and bureaucratic rigidity. This was identified as the most challenging factor in promoting performance governance in the implementation of the BSC. In the absence of a clear national leadership framework for improving performance and eradicating corruption, expecting more individual leaders with strong integrity in the IMOF was problematic as the supporting culture was absent.

Chapter 5 followed a similar format to Chapter 4. However, this time it was the KPI managers' perspectives on the relationship between leadership and BSC implementation in the IMOF that were presented. The success of BSC had been recognised in KPI evaluation, leadership feedback and the results of the stakeholders' satisfaction surveys.

The KPI managers, like the IMOF leaders in Chapter 4, were asked to identify factors that contributed to and challenged BSC implementation. Four key factors that supported the relationship between leadership and performance were identified by the KPI managers. These factors contributing to successful implementation were: leaders' clear vision and commitment in embedding the BSC approach, the development of the performance improvement strategy, the use of the BSC and strategic performance management system. This involved transforming the existing performance management system under the SAKIP approach into a more balanced one with a strategic orientation under the BSC approach. Finally the KPI managers identified the importance of incorporating stakeholders' views as an expression of good governance principles in the BSC design. This, they said, had triggered a clear direction for the KPIs development for improving performance outcomes.

The KPI managers identified four key factors that challenged the leadership roles in the implementation of the BSC. Leadership's lack of attention to developing appropriate KPIs emerged as the most significant factor that detracted from leadership effectiveness in implementing the BSC. As a result, poor quality KPIs had been developed in some

departments in the IMOF. In addition, there were problems with the HRM training function within the IMOF. The problems included leadership training, the management of other training and the lack of relevant training programs for units in the IMOF. Also mentioned were the lack of leadership response by leaders on the follow-up meetings for the performance evaluation of the units within the IMOF and the existence of patronage culture. The latter challenged attempts to introduce accountability based on performance that was integral to the BSC approach. Those four factors were frequently interlinked and according to the interviewees, adversely influenced organisational and individual performances.

Overall, the top leadership commitment and KPI managers' support as representatives of the leadership in embracing performance planning, reporting and evaluation were regarded as the most significant factors in achieving success in implementing the BSC to improve the IMOF's performance. This indicated the presence of distributed leadership involving more than just top leaders. KPI manager's support was also essential for BSC implementation success.

In Chapter 6, the data from Chapter 4 and 5 were systematically analysed. The main finding was that both IMOF leaders and KPI managers saw leadership effectiveness as the major determinant of the successful implementation of the BSC to improve organisational performance in the IMOF. The IMOF leaders had generally demonstrated effective leadership in implementing the balanced performance management system that led to the achievement of three performance outcomes: improving performance as measured by the BSC system, improved public services delivery as measured by stakeholder surveys and good governance as seen in lowering of the levels of corruption. Findings from the application of the strategic leadership style under Dr Mulyani in implementing a strategic performance management system based on the BSC, indicated that with strong personal, organisational, performance and social mastery, public sector leaders in the IMOF were capable of reforming the bureaucracy to achieve superior performance.

So what are the major lessons of this thesis and how do they contribute to our understanding of the linkage between leadership and performance? First, the respondents confirmed the literature's general view that leadership effectiveness is the most important factor determining implementation of performance management systems, in this case the BSC. Second, while theory pointed to strategic leadership as ideal style for implementing the BSC, it provided only partial fit, according to the respondents. None of the leadership theories

provided a good fit in the IMOF. Third, there were wide different of opinion. One of the reasons for the poor and partial fit of the strategic leadership theory with the BSC implementation was the occurrence of challenging factors that were identified by the interviewees. Without close and sustained attention to these challenges, BSC success would be difficult to achieve. Fourth, one of the most common of these challenges was the perception of the Indonesian bureaucracy as rule-based, focused on hierarchy and loyalty, and prone to patronage culture. Such an organisational form does not fit well with the NPM-style approach of the BSC. Fifth, in order to address these deeply embedded challenges, the research discovered a set of factors that contributed to enhanced leadership effectiveness in the BSC. The pursuit of these factors will lead to improved performance management and performance outcomes in the IMOF.

This research thus contributes to our knowledge of public sector performance in developing countries by providing explanatory analysis and expanding the findings from previous research on BSC implementation in large public sector government institutions especially in developing countries (Umashev and Willet, 2008, Hoque, 2011). The updated conceptual framework that emerged from the study can now be used to explain the link between leadership and performance and answer the main research question convincingly – *How can the BSC be implemented successfully to improve and sustain public sector performance outcomes?* It also provides practical guidance to reformers when implementing performance management systems like the BSC.

Although this study was limited to the Indonesian Ministry of Finance, it may still be possible to generalise the results for other Indonesian public sector organisations. However, this should be done cautiously. Nonetheless, the findings confirm that implementing the BSC in a public bureaucracy by committed leaders can improve performance outcomes.

Appendix A: Nine Secondary Questions for Two Types of Respondents

1. What were factors that contributed to the successful implementation of the BSC in the IMOF?

2. What role did the leadership play in the implementation of the BSC in the IMOF?

3. What were the factors that challenge the effectiveness of the leadership role in implementing the BSC?

4. How were the organisational strategies developed under the BSC approach? How were they aligned with HRM and departmental strategies among units within IMOF?

5. What were the factors that challenge the organisation in managing and linking them with IT strategy and HRM?

6. What role did the BSC play in improving the organisational performance in the IMOF?

7. What were factors that challenge the implementation of the BSC in improving the IMOF performance outcomes?

8. To what extent were stakeholder concerns and governance principle accommodated in the IMOF's BSC system?

9. What were the factors that challenge the sustainability and governance of the BSC-based performance management?

Appendix B: IMOF Bureaucracy Reform Result 2007-2009

No.	Echelon I Unit : **DG Budget**	Before Reform	After Reform Program
1	Service to prepare the Budget Documents (SAPSK) as an attachment of the President Regulation on the Government Disbursement Budget	No specific time standard	At the latest the third week of November
2	Service to finalized the Revision of the Budget Documents-SAPSK revision (APBNP)	No specific time standard	5 working days
3	Service to finalized the Special Standard Costing	No specific time standard	By the 2nd week of June every year

	DG Treasury	Before Reform	After Reform Program
4	Service to Examine and Ratify the Budget Proposal of The Ministry/Agency (DIPA Pusat)	By the end of March each year	20 days
5	Publishing Services Fund Disbursement Instruction (SP2D) Shopping Non Employee In KPPN Pilot	1 day	1 hour (except December)
6	Administration Service Admission through State Revenue Module (MPN)	N/A	100 minutes

	DG Tax	Before Reform	After Reform Program
7	TIN Registration Application Completion Services	1-3 working days	1 working day
8	Inauguration Application Completion Services Entrepreneur taxable Tax (PKP)	3-7 working days	3 workind days
9	Restitution Settlement Services Application for Value Added Tax	12 months	2 - 4 - 12 months
10	Publishing Services Tax Excess Payment Order (SPMKP)	1 month	3 weeks
11	Objection Petition Settlement Services Tax Determination	12 months	9 months
12	Resolution Granting Tax Exemption Permit Principles Article 22	1 month	3 weeks
13	Free Information Settlement Services (LCS) Withholding Income Tax Article 22 Import	1 month	5 working days
14	WP Application Completion Services on reduction of UN	3 months	2 months

	DG Customs and Excise	Before Reform	After Reform Program
15	Customs service for Priority Line	16 minutes-4 hours	max 20 minutes
16	Customs service to the Green Line	16 minutes-22 hours	max 30 minutes
17	Customs service to the Red Line	39-100 jam	max 12hours 30 minutes
18	Customs service in the field of Exports	9 hours 7 minutes	1-4 hours
19	Care Complaints Resolution Process	NA	max 60 working days
20	Returns Service / Restitution and Excise Duty	NA	max 30 working days

21	Immediate Care / Rush Handling (Import)	NA	120 minutes
22	Certain of Import Services (PIBT) for Courier Services Company	N/A	1 working day
	DG State Asset Management	Before Reform	After Reform Program
23	Implementation of Auction Services:		
	1. Auction Execution immovable or movable goods sold along with immovable	47 working days	34 working days
	2. Execution Auction chattels	27 working days	10 working days
	3. Auction Non Execution	27 working days	10 working days
27	Removal Permit Application Services State Property other than Land and / or Buildings	N/A	9 working days
28	Application for Debt Relief Services (on KPKNL)	2 months	15 working days
29	Application for Debt Relief Services (the Regional Office)	2 months	25 working days
30	Assessment Services to Provide Recommendation for Transfer of State Property	N/A	15 working days
31	Withdrawal of Application Services Management of State Receivables	N/A	3 working days

	Capital Market and Financial Institutions Supervisory Agency	Before Reform	After Reform Program
32	Issuer Registration Statement Filing Services / Public Company	45 working days	35 working days
33	Licensing Services Representative Underwriter / Broker Dealer	45 working days	21 working days
34	Service Provision / Denial Business License Insurance / Reinsurance includes companies with Islamic principles	30 working days	21 working days
35	Enrollment Services Fund Collective Investment Contract or Company	45 working days	35 working days
36	Ratification of Pension Fund Formation Services	3 months	7 working days
37	Application for Permit Services Agent Mutual Fund Sales	45 working days	21 working days
38	Services Application for Registration as a Professional Accountant Capital Market	45 working days	21 working days

Appendix C: Government's Strategic Plan Framework

(based on Decree of Head of LAN Number 239/IX/6/8/2003)

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┌─────────────────────────────────────────────────────┐
│                   LEGAL BASES                         │
│  ▪ Law Number 25 of 2004 Concerning National          │
│    Development Planning System                         │
│  ▪ Law of State Revenues and Expenditures Budget and  │
│    Annual Development Plan                             │
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│               MAIN DUTY AND FUNCTION                  │
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│                      VISION                           │
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│                     MISSION                           │
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┌──────────────────┐
│ Critical Success │  ⇨
│     Factors      │
└──────────────────┘      ⇩
┌─────────────────────────────────────────────────────┐
│                   OBJECTIVES                          │
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│                     GOALS                             │
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┌─────────────────────────────────────────────────────┐
│       The Way to Achieve Objectives and Goals         │
│                                                       │
│            1. Policies  2. Programs                   │
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│              ANNUAL PERFORMANCE PLAN                  │
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│   Feedback   │ ←                    → │   Feedback   │
└──────────────┘                        └──────────────┘
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┌─────────────────────────────────────────────────────┐
│            PERFORMANCE ACCOUNTABILITY                 │
│              REPORT OF GOVERNMENT                     │
│                  INSTITUTION                          │
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1. Vision

Vision is a future perspective to which government institution ought to be driven, in order to support its existence, be responsive and innovative. It also can be defined as a challenging future description desired by government institution.

Vision becomes shared ownership and believed by all members of organisation. A good vision will become an accelerator for institution's activity; includes arrangement of strategic planning, resource management, performance indicator development, performance measurement and evaluation. The objectives of vision for government institution are:

a. Express the expectation or what the government institutions should achieve.
b. Give a clear direction and focus on strategy.
c. Unite various strategic ideas.
d. Have a future perspective
e. Give commitment to all members of organisation
f. Assure the continuity of organisation leadership.

Formulation of the vision should:

a. Include strategic objectives and clear organisation's goal and direction.
b. Describe aspiration about the future of the organisation
c. Inspire the achievement of the best possible outcomes
d. Be result oriented
e. Communicate the mission statement and the leader persuasive statements

A sound vision should fulfill the following requirements and criteria:

a. Imaginable (could be imagined by all organisation level)
b. Desirable (has value that being desired by all organisation member)
c. Feasible/achievable
d. Focus on efficient, effective, and economic operation
e. Forward looking and in line with current condition
f. Communicable and understandable

2. Mission

Mission is a statement that determines objectives and goals of the government institutions. Mission statement brings organisation to a focus. They explain "why organisation exists, what they do, and how they do it".

According to the SAKIP guidance, a good mission statement should include the following factors:

a. products or services being produced and offered
b. the products or services are needed by the society
c. target of public or customer that will be served
d. quality of products and services that must have a competitive advantage
e. desired aspiration in the future, connected with the benefit and advantage received by society.

3. Objectives

According to the President Instruction No. 7 of 1999, the objective is an explanation or implementation of mission statement. There are several criteria of a sound objective statement according to the SAKIP guidance:

1. Acceptable
2. Flexible
3. Measurable
4. Motivating
5. In accordance with the vision and mission
6. Understandable

4. Goals

Goals are detailed of objectives about what the organisation should achieve and result in a given period of time. Defining goals should be specific, measurable, achievable, result-oriented, and time bound (SMART).

Appendix D: IMOF Strategy Map 2007

IMOF VISION AND MISSION
To become the world class, professional and dignified institution in the managing of public finances and state assets that will be instrumental for the process of transforming the nation into a prosperous, equitable, and highly civilised society

Pro-Poor | Pro-Growth | Pro-Jobs

STRATEGIC GOAL: Improve and secure revenues taking into account economic and community justice

STRATEGIC GOAL: Improve the efficiency and effectiveness of the state disbursement management to support the ministry and agency tasks and fiscal decentralisation implementation in order to achieve national goals

STRATEGIC GOAL: Optimise the efficient management of financial instruments with a controlled risk in order to achieve fiscal sustainability

STRATEGIC GOAL: Optimise the management of state assets in accordance with the principles of functional, rule of law, transparency, efficiency, public accountability and certainty of value.

STRATEGIC GOAL: Build the capital market and financial institution authority that prudent and professional in developing the capital market and the non bank financial institutions as drivers for strong national economy and global competitiveness

STATE REVENUE | STATE DISBURSEMENT | STATE FINANCING | STATE WEALTH | CAPITAL MARKET & NBFI

Source: IMOF, 2007b

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Appendix E: IMOF Strategy Map 2008

IMOF-WIDE STRATEGY MAP 2008:

IMOF VISION & MISSION

Go back 7

Pro-Poor Pro-Growth Pro-Jobs

| REVENUE | EXPENDITURE | FINANCING | STATE ASSET MANAGEMENT | CAPITAL MARKET & FINANCIAL INSTITUTIONS |

HRM ORGANISATION INFORMATION

HRM, ORGANISATION AND INFORMATION MANAGEMENT

SS. LG 1
To recruit and develop competent and high integrity HR

SS. LG 2
To develop modern unit to support process business improvement in state asset management

SS. LG 3
To implement good governance

SS. LG 4
To develop reliable integrated system to support Revenue & Expenditure Management

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Appendix F: IMOF Strategy Map 2009

IMOF Strategy Map 2009/2010 – Executive Summary

VISION
"To become a world class institution in public finance and state asset management which professional, noble and instrumental for the transformation process towards prosperous, equity, and highly civilized society".

Stakeholder Perspective

- DK-1 Optimal State Revenues
- DK-2 Optimal State Budget Disbursement
- DK-3 Save Financing for Fiscal Sustainability
- DK-4 Optimal Utilization of State Asset
- DK-5 Transparent & Accountable Reporting
- DK-6 Capital Market Industry and Financial Service institution which stable, hardy and liquid

Customer Perspective

- KL
- BUMN
- WP dan perusahaan
- Pemda
- Kreditor dan investor
- Pelaku pasar modal dan LK

- DK-7 Transparency and Credibility of State Financial Management
- DK-8 High level Customer Satisfaction

Internal Process Perspective

Policy Formulation
- DK-9 High Quality Policy Assessment & Formulation

Management and Development
- DK-10 Effective & Efficient State Finance & Asset Management
- DK-11 Improvement on Capacity of Economic Players and Society

Supervision and Law Enforcement
- DK-12 Monitoring dan evaluasi kepatuhan dan penegakan hukum yang efektif

Learning and Growth Perspective

HRM
- DK-13 High Integrity and Competency of HR Development

Organisation
- DK-14 Modern and Capable Organisation Development

Information Technology & Com.
- DK-15 Integrated TIC System Development

Anggaran
- DK-16 Optimal Budget Management

Appendix G: Respondents

The detailed respondents who were interviewed can be described as follows:

1. **Top Executive (Leaders) in the Indonesian Ministry of Finance:**

    a. Finance Minister,
    b. Secretary General,
    c. Inspector General,
    d. Director General of Taxation,
    e. Director General of Customs and Excise,
    f. Director General of Treasury,
    g. Director General of Budget,
    h. Director General of Asset Management,
    i. Director General of Fiscal Balance,
    j. Director General of Debt Management,
    k. Head of Fiscal Policy Office,
    l. Head of Finance Education and Training Agency,
    m. Head of Capital Market and Financial Institution Supervision,
    n. Expert Staff for the Finance Minister in the field of State Revenue,
    o. Expert Staff for the Finance Minister in the field of State Disbursement,
    p. Expert Staff for the Finance Minister in the field of International Cooperation,
    q. Expert Staff for the Finance Minister in the field of Capital Market and Non-Bank Financial Institutions Supervision,
    r. Special Adviser for the Minister in the field of Information and Technology.
    s. Special Staff for the Finance Minister.

2. **Senior Officials who directly related with the BSC implementation Process**

    It includes some key staff in the Finance Minister's strategy management office and twelve senior officials/staff so called the KPI Managers of the strategy management office in all twelve units under the IMOF as follows: Secretariat General; Inspectorate General; Directorate General (DG) Tax, DG Customs and Excise, DG Treasury, DG Budget, DG Asset Management; DG Fiscal Balance; DG Debt Management; Fiscal Policy Office; Finance Education and Training Agency; and Capital Market And Financial Institution Supervision.

Appendix H: Linking Research Questions-Evidence
A. Respondents: IMOF Leaders

PRIMARY/CENTRAL QUESTION (FOR IMOF LEADERS):

"How can BSC be implemented successfully to improve and sustain public sector performance outcomes?"

SECONDARY QUESTIONS	LITERATURE REVIEW	INTERVIEW QUESTIONS FOR LEADERS:	OBJECTIVES	EVIDENCE GATHERED FROM INTERVIEW
1. What were factors that contributed to the successful implementation of the BSC in the IMOF?	The strategic leadership roles for better organisational outcome are: determining the organisation's vision, exploiting and maintaining core competencies, developing human capital, sustaining and effective organisational culture, establishing balanced organisational controls and emphasizing ethical practices (Evans, 2009; Ireland & Hitt, 2005; Stoker, 2006).	a. How will you describe your leadership role? How much time did you spend leading? b. How did you judge the results of leadership? How did the organisation judge your leadership? c. Do you agree if your unit performance achievement would be used to reflecting your leadership effectiveness? Why? **1**	To determine the role of leaders and the impact of leadership in the BSC implementation process to improve and sustain organisational performance outcomes	Leadership effectiveness
2. What role did the leadership play in the implementation of the BSC in the IMOF?	There are four leadership substitutes: closely affiliated teams, personal intrinsic satisfaction, high technology (computer) environment and professional norms and structure considered as important factors that provide guidance and incentives to organisational performance without strong leaders' figure (Dubrin, Dalglish, & Miller, 2006)	What are factors other than leadership that have significant impact on the achievement of your organisations' performance? **2**	To define alternative factors contribute to the leadership effectiveness?	
3. What were the factors that challenged the effectiveness of the leadership roles in implementing the BSC?	As one of the best leadership tool for managing performance in the private and public sector (Kaplan & Norton, 2004, Estis 1998), BSC promotes an adoption of holistic and comprehensive approach for strategic planning, performance measurement and evaluation (Graetz, 2006,).	Do you think that BSC is suitable as leadership tool to improve performance in public sector? Can you explain why? **3**	To identify factors accounting for the successful implementation of BSC in the IMOF	

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PRIMARY/CENTRAL QUESTION (FOR IMOF LEADERS):

"How can BSC be implemented successfully to improve and sustain public sector performance outcomes?"

SECONDARY QUESTIONS:	LITERATURE REVIEW	INTERVIEW QUESTIONS FOR LEADERS:	OBJECTIVES	EVIDENCE GATHERED FROM INTERVIEW
4. How were the organisational strategies developed under the BSC approach?	• Traditional strategic management need to be expanded in four ways : promote employee involvement to create strategy, map the vision publicly, empower followers to lead, and push concrete action and networking (Nutt and Backoff 1993). • Strategic leaders exemplify personal, organisational, performance and social mastery and embraces leadership succession (Draft & Pirola-Merlo, 2009; Jing & Avery, 2008 ; Ireland and Hitt, 2005).	4 a. How did you develop your leadership competencies? b. Are you satisfied with the current leadership competencies development under HR bureau or MOF Leadership training center?	To find evidence on the link between HRM and leaders-hip	Strategy and HR Management "fit"
5. What were the factors that challenged the organisation in managing and linking strategy with IT strategy and HRM?	• Organisation needs to have better framework to improve organisatio-nal performance (Bolden et al. 2003) systematically: o Improve better leadership succession planning for sustainable performance (Schall, 1997). o Develop individual performance evaluation (Sutiyono 2007). • Three Major fundamental problems in Indonesian public sector in terms of a very complex reward system and highly bureaucratic personnel policy hold by central agencies and very low remuneration especially for senior officials (Turner, Imbaruddin and Sutiyono (2009)	5 a. How did you meet the target of performance? b. How did you improve individual performance? Did you rely on the existing DP3 for individual performance evaluation? c. Did you provide support for your staff leadership/managerial/social capacity building? In what ways? 6 How was the leadership succession process in your unit? Did you have difficulties to appoint middle/low level managers? 7 At your current level of position and salary (after reform) and considering your working load, did you still need additional income? What kind of additional income did you get?	To find how HRM practices support the unit performance and the IMOF strategy To trace the influence of the leadership remuneration to organisation performance.	

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PRIMARY/CENTRAL QUESTION (FOR IMOF's KPI MANAGERS):
"How can BSC be implemented successfully to improve and sustain public sector performance outcomes?"

SECONDARY QUESTIONS:	LITERATURE REVIEW		INTERVIEW QUESTIONS FOR KPI MANAGERS:	OBJECTIVES	EVIDENCE GATHERED FROM INTERVIEW
6. What role did the BSC play in improving the organisational performance in the IMOF?	Establishing balanced organisational controls is one element of strategic leadership role for better organisational outcome (Evans, 2009; Ireland & Hitt, 2005; Stoker, 2006).	8	a. What were your leaders' main roles in implementing BSC in your unit? b. Did they rely on BSC's report to control your organisational performance?		
7. What were factors that challenged the implementation of the BSC in improving the IMOF performance outcomes?	BSC is one of successful performance management system (Sitawati 2009, Rohmnd, Martello et al. 2008). Implementing PMS in the Indonesian public sector end up with some cautions in terms of national/organisational culture, leadership styles and HRM practices (Rhodes et al 2008).	9	a. How did your organisation develop commitment to implementing BSC throughout all managerial levels within your unit? b. Did you find resistances in the implementation of the BSC? In what ways?	To trace how BSC was implemented in the IMOF	Performance Management System
	There are two potential problem in implementing BSC in public sector: cascading problems which mainly because of the problems on the cascading of the performance indicators, and inflexible top-down approach of the implementation process and also identified communication problems in the midst of leadership change during the implementation of BSC (Umashev & Willett, 2008).	10	What were the challenges and problems in implementing BSC to achieve performance improvement? How did you deal with that problems?	To reveal challenges for the implementation of the BSC	
		11	Do you think that BSC concept will be effective for strategic performance management system in the long run? Why?		

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PRIMARY/CENTRAL QUESTION (FOR IMOF's KPI MANAGERS):

"How can BSC be implemented successfully to improve and sustain public sector performance outcomes?"

SECONDARY QUESTIONS:	LITERATURE REVIEW		INTERVIEW QUESTIONS FOR KPI MANAGERS	OBJECTIVES	EVIDENCE GATHERED FROM INTERVIEW
8. To what extent were stakeholder concerns and governance principles accommodated in the IMOF's BSC system? 9. What were the factors that challenged the sustainability and governance of the BSC-based performance management?	• Implementing performance principle is about promoting institutions responsiveness and effectiveness and efficiency in making best use of resources to produce result and serve all stakeholders (Graham et al., 2003; UNDP, 1999). • Public sector leaders need to advance their current PMS to the next level which is performance governance system by several ways as follows: ○ promotes public sector organisation's responsiveness to the current global issues and the dynamics of stakeholder interests. ○ promote a comprehensive and collaborative approach decision making process to sustain public sector performance. ○ incorporate systematically all organisation internal and external stakeholders (Bouckaert and Halligan 2008). ○ maintain governance principles and stay focus on its stakeholders, it is likely that the organisation will be able to meet their expectance and achieve sustainable result (Bossert, 1997).	12 13 14	a. Who are your organisation's main stakeholders? b. How often did your organisation interact with its main stakeholders? c. Did your organisation involve them in determining organisation's objectives or performance target? Would you agree to involve them to evaluate your organisation's leadership effectiveness? a. What elements of good governance principles did the organisation want to implement most? b. What were the organisational strategies for implementing good governance principles and accountability for performance? a. How did your organisation promote sustainability for the organisation's performance? b. Did your organisation use external reports/data to benchmark organisational performance report?	To determine the unit stakeholder involvement in the BSC implementation To identify what governance principles were promoted in the IMOF To trace how performance sustainability was promoted in the IMOF	Performance Governance

B: Respondents: KPI Managers

PRIMARY/CENTRAL QUESTION (FOR IMOF's KPI MANAGERS):

"How can BSC be implemented successfully to improve and sustain public sector performance outcomes?"

SECONDARY QUESTIONS:	LITERATURE REVIEW	INTERVIEW QUESTIONS FOR KPI MANAGERS	OBJECTIVES	EVIDENCE GATHERED FROM INTERVIEW
1. What were factors that contributed to the successful implementation of the BSC in the IMOF?	The strategic leadership roles for better organisational outcome are: determining the organisation's vision, exploiting and maintaining core competencies, developing human capital, sustaining and effective organisational culture, establishing balanced organisational controls and emphasizing ethical practices (Evans, 2009; Ireland & Hitt, 2005; Stoker, 2006).	1. a. Can you describe the IMOF leadership role? b. How did you judge the results of the IMOF leadership? How did the organisation judge your leadership? c. Do you agree if your unit performance achievement would be used to reflecting the IMOF leadership effectiveness? Why?	To determine the role of leaders and the impact of leadership in the BSC implementation process to improve and sustain organisational performance outcomes	
2. What role did the leadership play in the implementation of the BSC in the IMOF?	There are four leadership substitutes: closely affiliated teams, personal intrinsic satisfaction, high technology (computer) environment and professional norms and structure considered as important factors that provide guidance and incentives to organisational performance without strong leaders' figure (Dubrin, Dalglish, & Miller, 2006)	2. What were factors other than leadership that have significant impact on the achievement of your organisations' performance?	To define alternative factors contribute to the leadership effectiveness?	Leadership effectiveness
3. What were the factors that challenged the effectiveness of the leadership roles in implementing the BSC?	As one of the best leadership tool for managing performance in the private and public sector (Kaplan & Norton, 2004, Estis 1998), BSC promotes an adoption of holistic and comprehensive approach for strategic planning, performance measurement and evaluation (Graetz, 2006,).	3. Do you think that BSC suit as leadership tool to improve performance in public sector? Can you explain why?	To identify factors accounting for the successful implementation of BSC in the IMOF	

PRIMARY/CENTRAL QUESTION (FOR IMOF's KPI MANAGERS):

"How can BSC be implemented successfully to improve and sustain public sector performance outcomes?"

SECONDARY QUESTIONS:	LITERATURE REVIEW	INTERVIEW QUESTIONS FOR KPI MANAGERS	OBJECTIVES	EVIDENCE GATHERED FROM INTERVIEW
4. How were the organisational strategies developed under the BSC approach?	• Traditional strategic management need to be expanded in four ways : promote employee involvement to create strategy, map the vision publicly, empower followers to lead, and push concrete action and networking (Nutt and Backoff 1993). • Strategic leaders exemplify personal, organisational, performance and social mastery and embraces leadership succession (Draft & Pirola-Merlo, 2009; Jing & Avery, 2008 ; Ireland and Hitt, 2005).	4 a. How did organisation develop your leadership competencies? b. Are you satisfied with the current IMOF leadership competencies development under HR bureau or the IMOF Leadership training center?	To find evidence on the link between HRM and leaders-hip	

5. What were the factors that challenged the organisation in managing and linking strategy with IT strategy and HRM?	• Organisation needs to have better framework to improve organisatio-nal performance (Bolden et al. 2003) systematically:
	  o Improve better leadership succession planning for sustainable performance (Schall, 1997)
	  o Develop individual performance evaluation (Sutiyono 2007).
	• Three Major fundamental problems in Indonesian public sector in terms of a very complex reward system and highly bureaucratic personnel policy hold by central agencies and very low remuneration especially for senior officials (Turner, Imbaruddin and Sutiyono (2009)
		5
		a. How did your organisation meet the target of performance?
		b. How did the organisation improve the individual performance? Did organisation rely on the existing DP3 for individual performance evaluation?
		c. Did your superior provide support your leadership/managerial/social capacity building? In what ways?
		
		6
		How was the leadership succession process in your unit? Did your organisation have difficulties to appoint middle/low level managers?
		
		7
		Considering your current level of position, the salary (after reform) and your working load did you still need additional income? What kind of additional income did you get?
			To find how HRM practices support the unit performance and the IMOF strategy
			
			To trace the influence of the leadership of remuneration to organisation performance.
				Strategy and HR Management "fit"

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PRIMARY/CENTRAL QUESTION (FOR IMOF's KPI MANAGERS):
"How can BSC be implemented successfully to improve and sustain public sector performance outcomes?"

SECONDARY QUESTIONS:	LITERATURE REVIEW		INTERVIEW QUESTIONS FOR KPI MANAGERS:	OBJECTIVES	EVIDENCE GATHERED FROM INTERVIEW
6. What role did the BSC play in improving the organisational performance in the IMOF?"	Establishing balanced organisational controls is one element of strategic leadership role for better organisational outcome (Evans, 2009; Ireland & Hitt, 2005; Stoker, 2006). BSC is one of successful performance management system (Sitawati 2009, Rohm nd, Martello et al. 2008). Implementing	8	a. What were your leaders' main roles in implementing BSC in your unit? b. Did they rely on BSC's report to control your organisational performance?		
7. What were factors that challenged the implementation of the BSC in improving the IMOF performance outcomes?	PMS in the Indonesian public sector end up with some cautions in terms of national/organisational culture, leadership styles and HRM practices (Rhodes et al 2008).	9	a. How did your organisation develop commitment to implementing BSC throughout all managerial levels within your unit? b. Did you find resistances in the implementation of the BSC? In what ways?	To trace how BSC was implemented in the IMOF	Performance Management System
	There are two potential problem in implementing BSC in public sector: cascading problems which mainly because of the problems on the cascading of the performance indicators, and inflexible top-down approach of the implementation process and also identified communication problems in the midst of leadership change during the implementation of BSC (Umashev & Willett, 2008).	10	What were the challenges and problems in implementing BSC to achieve performance improvement? How did you deal with that problems?	To reveal challenges for the implementation of the BSC	
		11	Do you think that BSC concept will be effective for strategic performance management system in the long run? Why?		

PRIMARY/CENTRAL QUESTION (FOR IMOF's KPI MANAGERS):

"How can BSC be implemented successfully to improve and sustain public sector performance outcomes?"

SECONDARY QUESTIONS:	LITERATURE REVIEW		INTERVIEW QUESTIONS FOR KPI MANAGERS	OBJECTIVES	EVIDENCE GATHERED FROM INTERVIEW

8. To what extent were stakeholder concerns and governance principles accommodated in the IMOF's BSC system?
 	
9. What were the factors that challenged the sustainability and governance of the BSC-based performance management?
	• Implementing performance principle is about promoting institutions responsiveness and effectiveness and efficiency in making best use of resources to produce result and serve all stakeholders (Graham et al., 2003; UNDP, 1999).
	
	• Public sector leaders need to advance their current PMS to the next level which is performance governance system by several ways as follows:
	  ○ promotes public sector organisation's responsiveness to the current global issues and the dynamics of stakeholder interests.
	  ○ promote a comprehensive and collaborative approach decision making process to sustain public sector performance.
	  ○ incorporate systematically all organisation internal and external stakeholders (Bouckaert and Halligan 2008).
	  ○ maintain governance principles and stay focus on its stakeholders, it is likely that the organisation will be able to meet their expectance and achieve sustainable result (Bossert, 1997).
		12	a. Who are your organisation's main stakeholders?
			b. How often did your organisation interact with its main stakeholders?
			c. Did your organisation involve them in determining organisation's objectives or performance target? Would you agree to involve them to evaluate your organisation's leadership effectiveness?
				To determine the unit stakeholder involvement in the BSC implementation	

		13	a. What elements of good governance principles did the organisation want to implement most? b. What were the organisational strategies for implementing good governance principles and accountability for performance?	To identify what governance principles were promoted in the IMOF	Performance Governance
		14	a. How did your organisation promote sustainability for the organisation's performance? b. Did your organisation use external reports/data to benchmark organisational performance report?	To trace how performance sustainability was promoted in the IMOF	

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