

# THE ROLE OF PERFORMANCE MEASUREMENT SYSTEM IN BUILDING TRUST BETWEEN CENTRAL GOVERNMENT, LOCAL GOVERNMENT AND ITS CONSTITUENTS

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## **Abstract**

*The widespread adoption of decentralization throughout the world is based on a common belief that decentralization is considered to have the potential to improve the performance of the public sector and will result in stronger municipalities. However, some argue that the assertion on decentralization's potential to improve performance may be applicable to the developed countries, but it is not the case in developing countries.*

*Inability centralized planning in promoting equal development and financial difficulty have been quoted as main reasons for decentralization. However, along with the autonomy in planning, resource allocation and implementation comes heavier burden of newly delegated responsibilities. Cost cutting and improving the efficiency of programs became the major concerns for local governments that many of them decided to adopt performance measurement in the hope that it might contribute to the improvement of their financial status.*

*Recent study shows an increasing number of government institutions have reformed their performance measurement system to address the decentralization process. As every approach has its strengths and weaknesses, learning the experience of Indonesian government would provide a valuable lesson on the role of performance measurement system in the decentralization.*

## **INTRODUCTION**

This paper focuses on one of the current issue areas in public management – fiscal decentralization and performance measurement system. Although there are numerous studies on fiscal decentralization and performance measurement system in government institution, only a few studies done on the role of performance measurement in the decentralization in developing countries. This research paper uses the case study to study performance measurement.

Learning from past experience is one way to improve performance. However, governments do not necessarily possess the capacity to readily learn from their previous success and failures. Success story or even failure story could help to build and sharpen the capacity. The success story of performance measurement in a developed country might provide a reference for the developing countries to evaluate what went wrong and improve their performance in the future. On the other hand, the case study of some developing countries, even the failure story, would provide some insight for other countries not to repeat the same mistake. It would take time and effort, even some failure experiences before developing countries could successfully implement performance measurement system. Nevertheless, experience from other countries could help one country to shorten the time, minimize the effort and increase the successful rate in implementing performance measurement system.

The paper is structured along the research questions. Most of the theory is embedded in the first section of the literature review. Next, we shortly describe the methodology of the research. The next section is going to discuss decentralization process and performance measurement of Indonesian government. The fourth section describes analysis of the case study through the decentralization time frame. Finally, there is a conclusion with some implications for practice and theory.

## LITERATURE REVIEW

Inability centralized planning in promoting adequate and equal development, together with financial difficulties caused by growing service demands and under-performing economies resulted in mounting budget deficit. It had led to emerging decentralization process worldwide (Smoke, 2006)

Decentralization is the transfer of authority, responsibilities and resources to lower levels of government (Dillinger, 1994). Recent decentralization reforms also substantially imply a transformation of accountability chains between central government, local governments, and the community, in which it crucially depends on the mechanism to replace central management with control over government affairs at the local level by the constituents (Blair, 2000; Manor, 1998; Crook and Manor, 2000, World Bank, 1995; Agrawal and Ribot, 1999). Otherwise, decentralization may in fact create incentives to distract public resources from its objective to satisfy individual interest.

The most important pre-condition for the success of decentralization is to establish *local accountability* through effective checks and balances, which implies that the use of local information (the region's performance information) is critically needed. During the early years of decentralization, lack of *local accountability* seems very common since there is lack of incentive or accountability pressures imposed on elected officials to implement policies in the public interest, due to lack of proper information, low education, or other reasons (Aziz, 2008).

Public sector reforms regularly incorporate a performance measurement element (Pollitt and Bouckaert, 2004). Public Sector reform focuses on how to balance resource with targets while considering cost efficiency, with performance measurement as its core. Performance measurement is intended to produce objective, relevant and precise performance information to answer the accountability demands, which would not only reduce the need for arbitrary judgment but also make it easier to scrutinize performance (Hatry, 1999). One of the main reasons for inefficient, ineffective and low productivity in public sector in the developing countries is lack of transparency and accountability in government organization, which could be caused by many reasons such as incompetent human capital, inadequate information technology/infrastructure, and vested political interest. The condition is aggravated by the fact that among the information available, there is still lack of relevant information for telling success from failure and for decision making. The information is by and large provided by the performance measurement system.

The existing theoretical and applied literature offers some arguments in favor of decentralization, which highlight the important of performance measurement. Decentralization is still enthusiastically praised as an effective remedy in the reform of governance systems, particularly in developing countries (Dillinger, 1994). A principle of good governance has the following characteristics of devolving centralization power with decentralization on the basis of subsidiarity<sup>1</sup>, public participation in every decision-making

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<sup>1</sup> Subsidiarity suggests that a local government seeking to achieve self-reliance and should not only rely on the central government (Michael H. Schuman, 2000, pp. 125, 128)

process at any level of government, efficient and effective government accounted transparently, and cooperation among government institutions and entities of community (Legowo, 2003). Some scholars argue that decentralization enhances the public sector's political accountability, legitimacy and responsiveness (Wagner, 1983; Oates, 1993). Seabright (1996) argues that accountability is considered more significant at the local level compared to the national level, since citizens could directly elect the governments based on their performance. Besley and Burgess (2001) suggest that both transparency and participation increase the political cost of not responding, thus creating incentives for the government to be more responsive. In this perspective performance measurement system could align incentives in a political system by providing relevant information, as Hatry (1999) states that a successful performance measurement system could be measured in terms of the quality of the discussion, the transparency of the information, the meaningfulness of that information to key stakeholders, and how it is used in the decision-making process.

Decentralization enhances the public sector's responsiveness, effectiveness, and efficiency in service delivery (Smoke, 2006). Furthermore, decentralization is assumed to enhance competition among jurisdictions to provide public services (Tiebout, 1956). In this perspective, performance measurement system could accommodate benchmarking process. However, some empirical evidences from developing countries such as Colombia, West Bengal, Brazil Eastern and Central Europe suggest the opposite result or at least achieve little in improving service delivery (Litvack, Ahmad, and Bird, 1998; Crook and Sverrisson, 1999; Mitlin, 2000). As some studies concluded, the implementation of any system in developing country government is more difficult compare to the one in the developed countries since they have to face the capacity constraints, limited technology, corruption and vested interest. The developing country government should get the basics rights, before attempting to introduce complex practices (Athukorala, 2003). In implementing decentralization and developing performance measurement system, it is important to consider the organizational insight and contextual factors. Instead of designing a one-size-fits-all system based on the best practices in the public sector, government should consider the differences between organizations (Dooren, 2005).

Nevertheless, most of the existing theoretical and empirical research has dealt with the impact of decentralization on the improvement of performance in local government. This paper will try to complement the unfinished research agenda on the varying patterns of local performance measurement systems to the new institutional environment created by decentralization policies, e.g. the role performance measurement in the relation between central government, local government and its constituents.

## **METHODOLOGY**

This paper is based on the research conducted on performance measurement system of Indonesia government. The research approach adopted had a number of distinct stages. The data is collected through documentary sources, observation and interviews. The analysis is primarily based on a documentary data, which consist of laws, journals, articles, instruction manuals, financial and performance reports, and other documents regarding decentralization and performance measurement.

After reviewing the literature in the area to enable some prior expectations to be established, interviews were conducted on a totally informal and unstructured basis and not recorded verbatim. This process was chosen to allow respondents to talk freely and in an unconstrained manner to ensure that all issues. The interviews were conducted with top management within the Ministry of Finance of Indonesia, since it is argued that the Ministry

of Finance is most concerned with the government reform and has been one of the change agents in the government.

In addition to the documentary study and interview, the writer has had the opportunity to participate and observe the meetings in the Ministry of Finance during a period of more than 3 years. The observations have, above all, helped to better understand and interpret the data from the documents.

## **DECENTRALIZATION PROCESS AND PERFORMANCE MEASUREMENT SYSTEM IN INDONESIA**

Since the political reform took place in 1998, there has been an increasing demand for more transparency and accountability. People demanded government to be accountable for every governmental activity and result. Before the reform took place, it was difficult for public to assess performance of government institution because it did not have any system to measure the efficiency and effectiveness of management in generating its intended result. The performance was only measured by financial accountability system, which describes budget realization of government institution. Accordingly, the performance of government institution was deteriorated as there was no measurement system to watch over it. It caused government to lose the public trust. This situation has made performance measurement become a crucial issue, more than ever, to be addressed.

There was no other way for government to gain public trust but to initiate performance management reform in 1999. To anticipate the challenge of the political reform, former President Habibie issued Presidential Decree number 7 Year 1999 on performance accountability in government institution<sup>2</sup>. This decree requires every government institution to prepare strategic planning for five years and evaluates its achievement on Performance Evaluation Report at the end of fiscal year. Performance Evaluation Report was written based on evaluation of organization achievement by comparing plan with actual result in term of five indicators: input, output, outcome, benefit and impact. The performance report will be evaluated by Financial and Development Supervisory Board, an internal auditor of government.

Decentralization is another outcome of the reform, which aim to promote implementation of good governance, by bringing key decisions closer to the public. The framework for decentralization of local government is based on the promulgation of Law 22 of 1999<sup>3</sup> concerning Regional Administration and Law 25 of 1999<sup>4</sup> concerning the Financial Balance between central government and the regions. The laws have led to major changes in civil service organization and its ways of working, by introducing separation of responsibilities between central, provincial and municipality government. Decentralization in Indonesia follows the unitary system. District or municipalities is responsible for delivering public services, Provincial Government is responsible for defining Standard of Minimum Public Services and Central Government holds the authority to define related policies. With mayors and district heads now selected directly by citizen rather than by local assemblies, local governments have become accountable to the local population in a fundamentally new way. One significant change was that the implementation of a single block grant, known as the General Purpose Fund (Dana Alokasi Umum, or DAU) in January 2001, which would provide autonomy for local government in utilizing the fund (Alm and Bahl 1999: 1–4),

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<sup>2</sup> The term *government institution* refers to all government organizations including line ministry, which would assist President in implementing his policy.

<sup>3</sup> Law 22 of 1999 has been replaced by Law 32 Year 2004

<sup>4</sup> Law 25 of 1999 has been replaced by Law 33 Year 2004

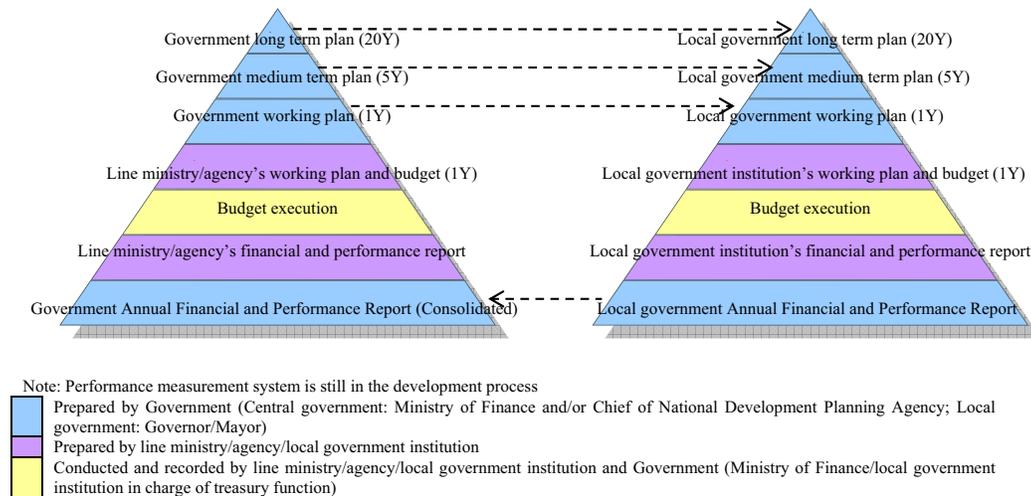
As part of the effort to provide operational regulations to implement the local autonomy program, which came into effect on January 1, 2001, the central government passed government regulation<sup>5</sup> number 105 Year 2000. The promulgation of the government regulation represented a milestone for local government financial management systems, because it introduced new budgeting concepts and financial reporting requirements that were significantly different from that which already existed. It also appears that some ideas from the private sector have been transferred into the local government sector. In 2005, government issued government regulation Number 58 Year 2005 to replace the previous mentioned regulation. However, both government regulations do not regulate the performance measurement or reporting.

The government financial management laws in Indonesia were still based on the outdated Dutch Law originated from the colonial era. Realizing the problem in legal framework, government issued Law number 17 year 2003 about State Finance, Law number 1 year 2004 about State Treasury, Law number 15 year 2004 about Audit on State Financial Management and Accountability and Law number 25 Year 2004 on National Development Planning System. According to Law number 25 Year 2004, government should prepare nationwide long-term plan for 20 years. Together with fiscal outlook data, government prepares the medium-term plan for 5 years, which will become a basis for government institutions to prepare their strategic plan. For each fiscal year, government will prepare work plan based on the nationwide medium-term plan. Based on their strategic plan and taking government work plan into consideration, government institutions will prepare their work plan. The process is similar to those of the local governments. They should prepare long-term plan for 20 years based on nation-wide long term plan. Local government prepares the medium-term plan for 5 years based on local government long term plan, nation-wide medium-term plan and standard for minimum service. It explains the planned vision, mission and program of elected governor/mayor. The medium-term plan would become a basis for local government institutions to prepare their strategic plan (stated in Law number 25 Year 2004 and Government Regulation number 58 Year 2005). For each fiscal year, local government will prepare work plan based on the local government medium-term plan and central government work plan. Local government work plan describe economic framework, development priority, work plan and funding plan. Based on their strategic plan and taking local government work plan into consideration, local government institutions will prepare their work plan. Strategic planning consists of description of vision, mission, strategy, goal, objective, policy, program and activity of organization. Strategic planning explains expected achievement within five years considering organization's capability, opportunity and problem.

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<sup>5</sup> In Indonesia, Law is the highest law product below the Constitution since it is formulated by the Parliament and president. Government Regulation is a lower level of law product compare to Law. Government Regulation is formulated by president with approval from the parliament. Presidential decree, issued by President, has lower law power compare to the above law product.

**Figure 1** The reformed strategic management framework



To execute strategic planning, government institutions need budget that consist of plan and resource allocation. Budgeting process consisted of three phases of submission (budget proposal), approval (budget) and implementation (Budget Execution Document). Every year government institution prepared budget proposal. It was a bottom-up process, which started from the work unit until it was compiled into organization-level budget proposal. With information on temporary budget limit, government institutions adjust their work plan into work plan and budget. Draft for central/local government Budget would be prepared based on compilation of government institutions' work plan and budget. President/governor/mayor will discuss this draft with the central/local parliament to result in central/local government Budget. The central/local government Budget would become a basis for adjustment in government institutions' work plan and budget. Budget would become a basis for operational activities since every resource used in the operation must be authorized by budget. Each government institutions will prepare budget execution document as a basis to put work plan and budget into implementation.

At the end of every fiscal year, government institution has to prepare Accountability Report and Performance Evaluation Report on its annual achievement. According to the new Government Accounting Standard enacted in 2003, Accountability Report should include three main reports of Budget Realization Statement, Balance Sheet and Cash Flow Statement. Budget Realization Statement compares budget with actual result in term of currency. Balance Sheet lists government asset, liability and equity. Cash Flow Statement illustrates government cash flow from operating activity, investing activity and financing activity.

Recently, government has issued Government Regulation Number 8 Year 2006 on Financial and Performance Reporting on Government Institutions to replace the Presidential Decree number 7 Year 1999. The performance measurement system under the presidential decree has numbers of issues which hinder the efficient and effective measurement of government performance. Performance measurement according to the new regulation is basically simplified into output and outcome basis. Currently, government is drafting the presidential decree to translate the regulation into a more detail regulation. It is stated in the government regulation that ministry/chief of institution/governor/mayor is responsible from policy point of view on the organization's performance achievement, while working unit manager is responsible on performance achievement

in the form of product and/or service of the unit. Annual performance report should include description on activity output and performance indicator on each program.

## **THE ROLE OF PERFORMANCE MEASUREMENT IN DECENTRALIZATION**

It has been 9 years since decentralization took place in Indonesia, which was followed by the implementation of performance measurement system. As every approach has its strengths and weaknesses, learning the experience of Indonesian government could provide a valuable lesson on the role of performance measurement system in the decentralization process. The case study is analyzed based on the decentralization timeframe, which influence the role of performance measurement in the relation between local government and its constituents.

### **1. On-going decentralization process**

On-going decentralization process consists of two phases, which are pre-decentralization process (before 1999) and transition period (1999-present). Each phase is discussed in the following section.

#### **a. Pre-decentralization period**

The move for decentralization in Indonesia has come to surface from the 1980s and 1990s. Central government has been reluctant to devolve greater authority to the local government. There are several reasons accountable for it such as heterogeneity of people in Indonesia that need a more centralized system, central government's view on local government's lack of capacity and willingness to manage their affairs independently, alignment of local government to the national development plan (Rukmo, 1998) and central government's unwillingness to relinquish control of development funds to the regions (Silver, Aziz, Schroeder, 2001). The actual of decentralization came in effect only in 1999, thank to the economic and political crisis that hit Indonesia in 1997 (Forrester and May 1999; MacAndrews 1986; Walker 1991; Leigland 1993; Ranis and Stewart 1994).

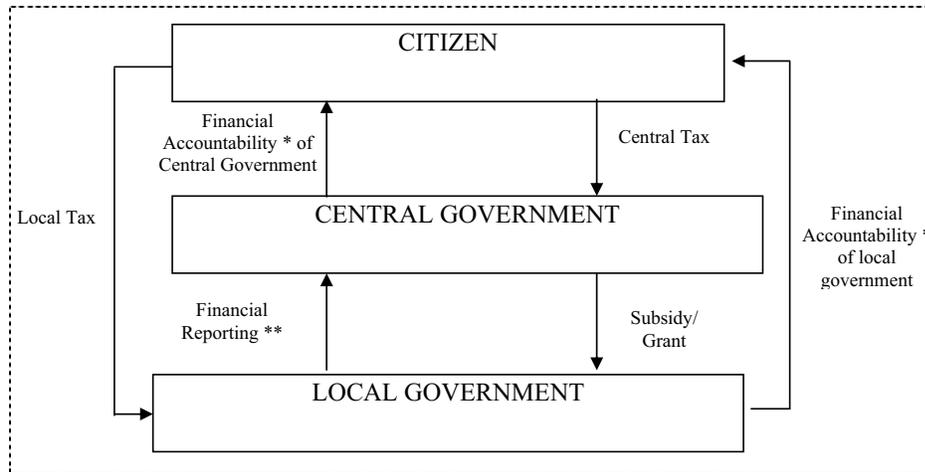
As shown in **Figure 2**, before decentralization, the division of central government and local government was basically a structural model of government, focusing on national unity and control (Rukmo, 1998). The decision making was concentrated at the central government. The concept of decentralization had been introduced even during the Dutch Colonial, Soekarno<sup>6</sup> and Soeharto<sup>7</sup> regime but the decentralization concept at that period meant the implementation of service delivery at the local level only, without distribution of decision-making authority to the local government (Crane, 1995; Devas, 1997; Walker, 1990). Although there was Law on Regional Autonomy issued in 1974 to devolve authority to the province government, it was difficult for province government to carry out the authority since it took time for the central government to issue the implementation provision. Local government was viewed as a subordinate of central government and was provided with subsidy/grant to finance their operation. Local governments could not sufficiently finance their own operation since Indonesia is one of the most centralized tax systems in the world (Ma 1996: 29) that more than 70% of all regional government revenues come from central government's intergovernmental financial transfers, which has been used as a pressure to address national development objectives (Silver, Aziz, Schroeder, 2001). The central government had primary responsibility for administering, setting tax rates and bases for all central and provincial taxes. The central government raised about 93 percent of total tax revenues of all governments, while provinces and district raised about 5 and 2 percent of total tax revenue of all levels of government (Ahmad and Krelove, 1999).

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<sup>6</sup> First president of Indonesia (after independence)

<sup>7</sup> Second president of Indonesia, who ruled for 32 years

**Figure 2** The relation between local government and its constituents in before decentralization and implementation of performance measurement system



\*) Financial accountability consisted of Budget Realization Report only.

\*\*\*) Financial reporting consisted of Budget Realization Report only

The accountability process was conducted by means of financial report (budget execution report) by the central government to the citizen, who is represented by the parliament and those of local government to the local citizen, who is represented by local parliament. During this phase, basically, central government and local government did not implement any performance measurement system. One of the reasons was authoritarian form of government in Indonesia, which suppressed the public demand for performance accountability. Furthermore, the mind set in government was still focus on input. Government prepared budget proposal based on resource needs and they would be held accountable based on resource spent on program. Government institutions were never being held accountable for output.

**b. Transition period**

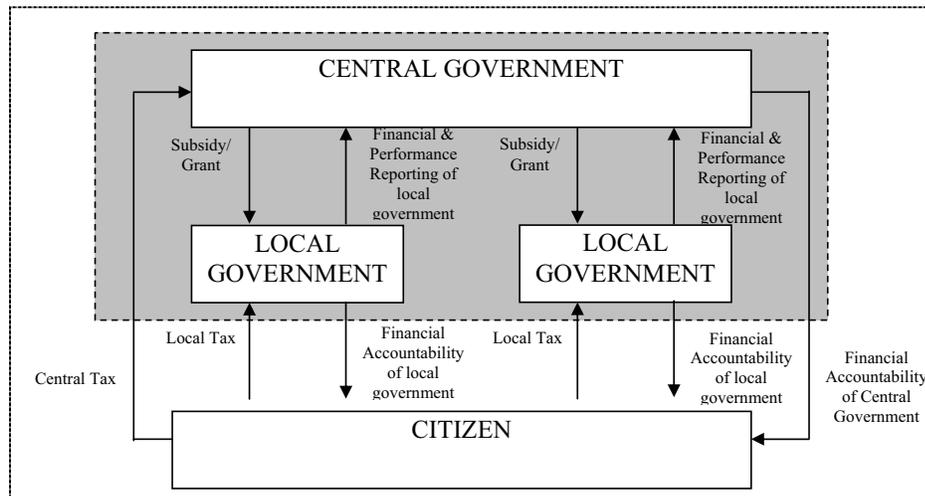
The political reform in 1998 followed with the enactment of Law 22 Year 1999, on regional autonomy, and Law 25 Year 1999 on the financial balance between central government and the regions, marked the new era of decentralization, which redefined the relationship between the central, provincial and local government. The laws transfer a wide range of public service delivery functions to the regions and strengthen the authority of elected regional councils. The law determines the local level (provincial and district) has responsibility for all governmental matters except in five areas: foreign affairs, defense and security, justice, religion, monetary and fiscal affairs.

As shown in **Figure 3**, decentralization highlights the importance of performance measurement system as control and governance tools to stakeholders, mainly in this case, the central government. Indonesia implemented unitary system and began introducing performance measurement system just after decentralization trend emerged. Indonesia government use centralized policy by introducing the mandatory performance measurement system through the regulation. Before decentralization, central government held a complete control on the authority and resource, which were transferred to local government after the decentralization. Since a *unitary state* is governed constitutionally as one single unit and central government retains the

principal right to recall such delegated power, it is important that central government could monitor local government's performance and align their direction to those of central government<sup>8</sup>. For that purpose, central government has been urging local government to implement performance measurement system to provide a complete picture of local government performance.

As control and governance tool, performance measurement system of local government should be integrated to government planning, budgeting, treasury and accounting system, as articulated in the Government Regulation number 8 Year 2006. Strategic planning should consider resource allocation, while resource allocation should consider targeted output and outcome. Performance measurement system will inform the progress of the program to plan for the following year. Another primary function of performance measurement involves the maintenance of fiscal stewardship through an effective budget process. Because the budget is the basis for resource allocation decisions, government has strengthened the link between resources and performance in budget justifications by introducing performance-based budgeting concept through government regulation number 21 dated august 5, 2004. In performance-based budgeting concept, government institutions have to prepare information on output and cost of planned activities in proposing budget plan. Estimated output and cost would become a basis for budget allocation and forward estimate<sup>9</sup> for the designated program.

**Figure 3** The relation between local government and its constituents in the framework of performance measurement system (Control)



The implementation of performance measurement in Indonesia was based on a presidential decree. Its purpose was to report government performance in order to improve government transparency and accountability to public. In addition to financial report regarding the utilization of subsidy/grant, the local government has to submit

<sup>8</sup> For example, based on Law number 25 Year 2004, the Local government has to align to nation-wide plan to provide cohesion to achieve national objectives.

<sup>9</sup> Forward estimate is cost estimation to carry on the project or activities to the next fiscal year. It is one element of Medium-term Expenditure Framework. It should be submitted in budget proposal for the current fiscal year. It would become a basis in preparing budget proposal for the next fiscal year.

performance report every year as required by the regulation, which would be evaluated by government internal auditor (Financial and Development Supervisory Board). However, the accountability of performance was mainly based on financial statement since the mind set in government is still focus on input. It has crowned Financial Accountability Report as a very important report for government institutions, while Performance Evaluation Report was only considered as a compulsory end-of-year job. Furthermore, the performance measurement system was too complicated and designed without carefully considering the organization capacity. As a result, the focus of performance report of local government is mainly for the consumption of central government. The public is still 'illiterate' in grasping the content of the performance report, and it might take time to educate and build their awareness on their 'right to know' as citizen.

## **2. Future chapter**

Future chapter of decentralization process should consists of two phases, which are publicly-accountable local government and trustworthy relationship among entities. These two phases would take place after the new performance measurement system successfully implemented. Each phase is discussed in the following section.

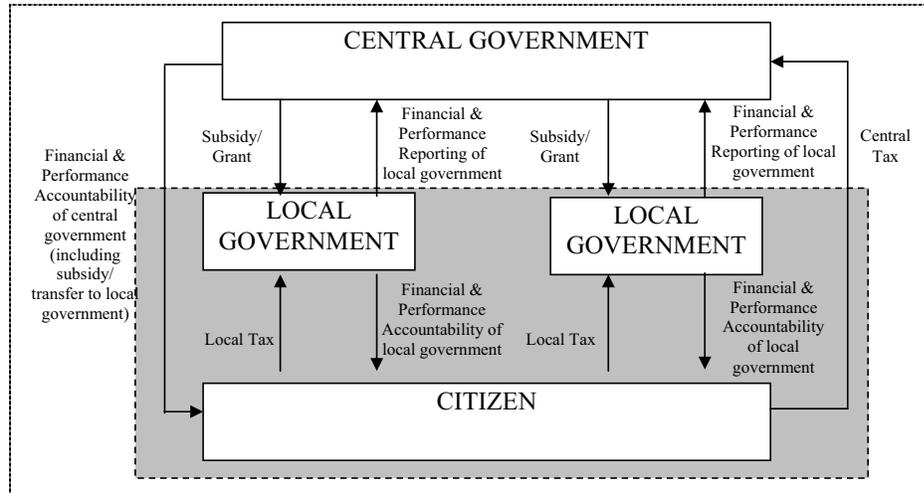
### **a. Publicly-accountable local government**

The autonomy should be complemented with accountability. As decentralization transfers the allocation function of public goods/service to local governments, they should be responsive and responsible to their constituents, and those constituents to be fully informed about the consequences of their decisions. This is the basic principle of accountability, which is essential both for value for money (economic efficiency) and democratic representation.

The principle highlight the importance of own-tax bases of local governments and discretion to determine their own tax rates, rather than financing through grants or revenue sharing with higher levels of government. Local residents are responsible for paying for local services, which in turn requires that local authorities can set some tax rates (economic accountability). There must be a balance between the provision of local public goods and the tax borne by local residents. However, most of the case, the own-tax revenue could not cover the soaring operation expense, that central government has to provide subsidy/grant to local government to cover the shortage in expenses. As a consequence, the local government should be accountable for the level of performance to their stakeholders, either to the public for the amount of tax or the central government for the amount of subsidy/grant.

In principle, it is perfectly possible for a local government to be heavily dependent on central transfers and still be fully accountable—to its citizens and/or the central government, depending on circumstances. Nevertheless, local government should also keep in mind that high level of fiscal imbalance, as local government heavily dependent on central government's subsidy/grant, could reduce local autonomy and accountability, as shown in UK case (Bird and Tarasov, 2004; Watt, 2004; Stegarescu, 2005). It would lead to the central government in the direction of attempting centralized micro-management under comprehensive performance management systems (Watt, 2006).

**Figure 4** The relation between local government and its constituents in the framework of performance measurement system (Accountability)



As shown in **Figure 4**, performance measurement system could become an accountability tool of local government to its constituents. As the public is becoming more concern with the local governments' performance, local governments have to be transparent to the public on their performance. There should be a clear legal framework of accountability, with respect to responsible entity, reporting form, time, and so on (administrative accountability). At this phase, local government should have published financial and performance report to their constituents. As Indonesian government is preparing to implement a new performance measurement system, it might take time before local government could measure their performance and be accountable for it. Once the local governments could measure their performance appropriately, they would prepare performance accountability report accordingly, either for central government or for citizen. Central government should summarize and consolidate the performance report of local government, especially performance related to subsidy/grant since it is financed by the central government. Furthermore, central government could reevaluate the scope for further devolution of control to local governments for taxes to provide local governments with greater own-source revenues and .improve their financial condition.

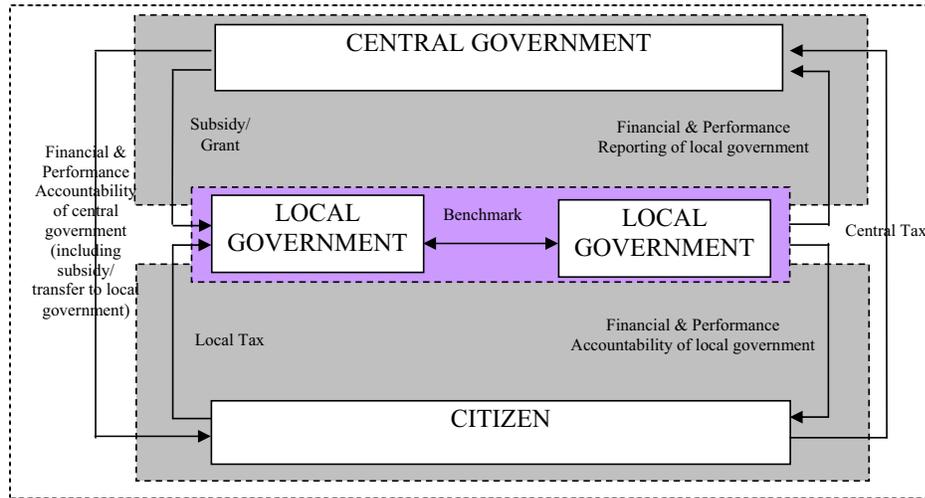
One of the requirements to improve performance measurement system in Indonesia, as required by the State Finance Law, is the employment of the accrual based system for central government and local government. The implementation of accrual based system would improve the performance measurement system in term of cost/efficiency measurement. The uniformity in the performance measurement and accounting system would help the central government to monitor the performance of local government and provide more comparable information for benchmarking in the future.

**b. Trustworthy relationship among entities**

Evaluation is the usual reason for measuring performance. Often, organizations are reluctant to report their performance because they are anxious about how the performance data is utilized to punish bad performance. It is why open communication

and trust are important to convince the organizations that the purpose of evaluation is on performance improvement.

**Figure 5** The relation between local government and its constituents in the framework of performance measurement system (Communication)



As shown in **Figure 5**, performance measurement system accommodates communication between central government and local government, local government and its constituents, among local governments. It would provide information on performance to higher level government and, based on the performance information, higher level government would provide direct or indirect feedback (through policy in revenue sharing, subsidy, grant, etc) to the lower level of government. As the demand for public service is diverse, the prescribed role of decentralization is in the allocation function of public goods/service to local government (Smoke, 2006). Decentralization draws local government closer to its constituents as local government is given more authority to decide what kind of product/service to provide. Through performance measurement system, local governments could communicate the product/service that they have provided and the level of performance. On the other hand, the constituents could learn the ‘value for money’ that they have received and provide feedback based on the result.

Performance measurement could help local government to identify, recognize and share best practice since standard or benchmark is needed as a point of reference (Robert Simons, 2000). The key success factor for performance measurement in the longer term is the utilization of information by its stakeholder. Local government could use performance information for the benefit of joint learning, search for best practice to improve their performance and make correction effort. When local governments see the benefit of performance measurement in sharing information and identifying best practices, they will consider performance measurement as important management tool. Local governments in Indonesia should strive to reach this stage.

## CONCLUSION

The widespread adoption of decentralization throughout the world is based on a common belief that decentralization is considered to have the potential to improve the performance of the public sector and will result in stronger municipalities. However, as some studies concluded, the implementation of any system in developing country government is more difficult to compare to the one in the developed countries since they have to face the capacity constraints, limited technology, corruption and vested interest (Athukorala, 2003).

Authoritarian form of central government in Indonesia had been reluctant to devolve greater authority to the local government, mainly due to central government's view on local government's lack of capacity, central government's vision to align local government to the national development plan (Rukmo, 1998) and central government's unwillingness to relinquish control of development funds to the regions (Silver, Aziz, Schroeder, 2001). In addition, the public is still unaware of their 'right to know' as citizen and 'illiterate' in grasping the content of any government report. As a result, there was latent distrust between central government, local government and the public, which finally came to surface during the economic and political crisis that hit Indonesia in 1997.

As the most important pre-condition for the success of decentralization is to establish *local accountability* through effective checks and balances, the utilization of local information (the region's performance information) is critically needed. As indicate in the case study, the role of performance measurement system change as the decentralization advances, from the role as control tool to central government, accountability tool to its constituents, to communication means between entities. As a result, the performance measurement system could accelerate the process of decentralization and revitalize the local governments. However, performance measurement is one, but will not be the only, factor in successful decentralization process or it is not a solution for every problem and challenge to effective decentralization process. There are many other problems, which relate to the ineffectiveness of management practice and decentralization process in the public sector that cannot be solved by performance measurement alone. It does not replace the need for political goodwill, adequate system, or human resource management. Therefore emphasizing only on performance measurement system could be misleading and led to undesirable behavior that detracts from performance.

The reform is in process and all the main issues are on schedule, but there is still a big question mark on successful implementation of the performance measurement system in Indonesian local government. Government institutions in Indonesia are one step ahead from their past, heading to performing government. The reform process has brought many progresses, but there are more to improve. The decentralization and new performance measurement system is on the way for its implementation. Developing new performance measurement system and utilization of performance information is the future issues in Indonesian government. Successful implementation of the new system is still an ongoing question that needs to be tested. The successful implementation of performance management would become a powerful force in creating an efficient and effective management system in local governments. Hence, it will improve government accountability to the public and help government to regain public trust.

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