

The Role of New Public Management (NPM) on the Relation of Government Internal Control System (SPIP) With Public Organizational Performance

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ABSTRACT

This study aims to provide empirical evidence about the effect of clear and measurable objectives, decentralization, government internal control systems, performance measurement and incentives on public organization performance moderated by the New Public Management orientation. This research was conducted in the Sampang Regency area with reference to the research of Nitzl et al (2018) in Italy. The sample in this study was 30 Regional Apparatus Organizations (OPD) in Sampang District with 144 respondents consisting of OPD officials who have the authority to make decisions. This number of respondents has met the criteria for using SmartPLS analysis. The conclusion in this study is clear and measurable objectives have an effect on performance, then decentralization has no effect on performance. The government internal control system has an effect on performance while for performance measurement and incentives it does not affect performance. In addition, the results of the analysis of Moderated Structural Equation Modeling (MSEM) conclude that the New Public Management orientation does not strengthen the relationship between: clear and measurable goals, decentralization, government internal control systems, performance measurement, and performance incentives.

Keywords: *Clear and Measurable Objectives, Decentralization, Government Internal Control System, Performance Measurement, Incentives, Performance and New Public Management*

1. INTRODUCTION

Regional autonomy is implemented in the State of Indonesia based on the policies set forth in Law no. 23/2014 on Regional Government (Revised Law No. 32/2004). Literally regional autonomy is the authority given to each autonomous region to regulate and manage its own region based on the aspirations of the community and guided by the prevailing laws and regulations (Halim and Kusufi, 2014: 7). Halim and Kusufi also explained that the main reason for the implementation of regional autonomy was due to the development of conditions at home and abroad. Domestic conditions require independence to regulate and manage their own regions, while abroad, globalization has demanded the competitiveness of local governments.

With the issuance of the law regulating regional autonomy, it can be said that almost all authority in

regional management is fully delegated to the autonomous regions to regulate and manage their own regions. The transfer of all authority in the implementation of governance is accompanied by the implementation of a financial balance system between the central government and regional governments as regulated in Law no. 33 of 2004 concerning Financial Balance between the Central Government and Regional Governments. The main objective of the passing of these two laws is decentralization (Mardiasmo, 2004: 5). The creation of decentralization in the form of handing over of authority also has a major influence in improving organizational performance in the public sector (Sari et al , 2016).

According to Irzan and Abdullah (2018), decentralization is the handover of authority concerning both legislative, socio-administrative and administrative aspects from higher levels of

government to lower levels of government. The application of the decentralized system is one of the models of government set forth in the New Public Management era (Ulum, 2008: 115). The existence of great demands from the public for transparency and accountability presents a new paradigm in the management of public sector organizations that leads to the adoption of the concept of New Public Management.

The concept of New Public Management was known in the 1980s, which underwent several changes and then became popular again around the 1990s. This is interpreted as an alternative in managing public sector organizations that have been considered unsuccessful so far (Ahyaruddin and Akbar, 2016). In general, changes in the application of New Public Management aim to: (1) improve efficiency in the public sector, (2) increase the responsiveness of public sector institutions to clients (society), (3) increase accountability in the public sector, stated by Christensen and Laegreid, 2014 in (Ahyaruddin and Akbar, 2016). The main target of the New Public Management model is intra-organization and emphasizes the economy and efficiency of service units in the implementation of public services (Fattore et al, 2012).

Performance measurement in public organizations, especially government agencies, is reported in the form of LAKIP which is in accordance with the Renja of the related fiscal year and can be accounted for (Setiawan and Gusnita, 2016). Performance measurement acts as a performance evaluation. Performance evaluation is carried out to assess performance achievement so that it can be used to improve program implementation in the future (Pusdiklat BPKP, 2011). Performance evaluation can also be used as a basis for giving rewards and punishments.

Includes Context penyelenggaraan government, as stipulated in Government Regulation No.60 Year 2008 on Government Internal Control System (SPIP) establish their internal control systems put in place throughout the whole of central and local government levels (Cholis and Fadli, 2018). The purpose of implementing internal control is to provide adequate assurance regarding the achievement of financial reporting reliability, organizational effectiveness and efficiency as well as compliance with applicable laws and regulations. If all these things have been implemented properly in public organizations, then by

itself will provide assurance to public organizations to achieve the goals and objectives of the organization. All these things will be a positive influence on the level of performance in the public organizations (Sari et al, 2016).

Based on the above background, the researcher developed research on the influence of clear and measurable goals, decentralization, government internal control systems, performance measurement and incentives on the performance of public organizations moderated by the New Public Management orientation by referring to several studies that have been previously conducted by Ahyaruddin and Akbar (2016), Primastiwi (2017), Sari et al (2016), Sunarmono et al (2018) and Nitzl et al (2018).

The results of research conducted by Primastiwi (2017) show that clearly stated and measurable goals affect the use of performance measurement systems for exploration purposes. Furthermore, the use of a performance measurement system for exploration purposes has an effect on the performance of the Klaten district government. The big theme of research on organizational performance conducted by Ahyaruddin and Akbar (2016), shows empirical evidence regarding the relationship between the use of performance measurement systems which include (operational, incentive, and exploratory) on accountability and organizational performance. However, his research did not find a significant relationship between the three roles of using a performance measurement system on accountability and organizational performance.

The results of their research, Sari et al (2016), show that participation in budgeting and public accountability has no effect on managerial performance, while decentralization and internal control systems have an effect on government managerial performance. Supported by research by Sunarmono et al (2018), on the effect of the government internal control system on the managerial performance of government officials, which shows the results that the government internal control system has a significant effect on the managerial performance of local government officials.

Nitzl et al (2018) in Italy also conducted a study that discussed the relationship between the use of performance measurement systems and organizational performance which is influenced by the type of use of performance information with the cultural orientation

of New Public Management as a moderating variable. Demonstrate a performance measurement system with the type of monitoring and concentration that directly affects organizational performance. Meanwhile, strategic decision making and the use of legitimacy do not have a significant relationship to organizational performance. Based on the inconsistent results of previous research and referring to research conducted by Nitzl et al (2018) entitled exploring The Links Between Different Performance Information Uses, NPM Cultural Orientation, and Organizational Performance in The Public Sector, researchers developed a study entitled "New Roles Public Management on the Relationship between Government Internal Control System (SPIP) and Public Organization Performance". The difference with previous research is the addition of four independent variables which include: clear and measurable objectives, decentralization, government intrusion control systems and incentives in the Sampang district government.

2. LITERATURE REVIEW

2.1 Effect of clear and measurable goals on performance

Clear and measurable goals are very important in the sustainability of public organizations, especially to improve the performance of these organizations (Bastian, 2010: 204). Goal setting theory specifically emphasizes that goal setting combined with feedback and support is a motivational approach that fosters specific goals (Audenaert et al, 2016). Goal setting theory asserts that specific, challenging goals are better than vague or easy goals. However, if the planned goals are very easy to achieve, there is minimal effort from each individual to achieve these easy goals. Goal setting theory assumes that there is a direct relationship between measurable objectives and performance (Verbeeten 2008 in Primastiwi, 2017). Goals are made as evaluation standards for activities to achieve goals and performance (Murniati et al, 2016). Then the more clearly and measurable goals are formulated, the better the performance of public organizations. So that the hypothesis is formulated, namely:

H1: Clear and measurable objectives affect performance.

2.2 The Effect of Decentralization on Performance

Decentralization is the transfer of authority from the central government to the regional government, then the regional government delegates it to the work units under it because it is considered that the work unit knows better about the needs of the community (Ulum, 2008: 26-29). The relationship between agency theory and the decentralization variable can be seen from the relationship between the central government and local governments in the transfer of regional management authority and distribution and balance as well as the relationship between local government (agent) and the community proxied by the DPRD (principle).

The creation of decentralization in the form of handing over of authority also has a major influence on improving performance in organizations in the public sector (Sari et al, 2016). Research conducted by Davita et al (2018) also explains that decentralization in decision making has a significant effect on organizational performance. So that the hypothesis is formulated, namely:

H2: Decentralization affects performance.

2.3 Effect of Government Internal Control Systems on Performance

The internal control system is implemented as a whole at the central and regional government levels (Cholis and Fadli, 2018). The purpose of implementing internal control is to provide adequate assurance regarding the achievement of financial reporting reliability, organizational effectiveness and efficiency as well as compliance with applicable laws and regulations. Internal control that is carried out properly is one of the keys to the success of good governance so that government officials can carry out their duties effectively and efficiently and the performance of organizations in the public sector will increase.

The internal control mechanism contained in the government's internal control system is fundamental to organizational governance; in particular, to the agency relationship (agency theory) related to the decentralization of decision rights. Sunarmo et al (2018), in their research, also explained that the implementation of an internal control system that is carried out effectively and efficiently will affect the

increase in the performance of regional government officials. So that the hypothesis is formulated, namely:

H3: Government Internal Control System affects performance.

2.4 The Effect of Performance Measurement on Performance

Performance measurement is the key to the success of an organization in the public sector to achieve its objectives and also as a tool to improve performance in decision making to achieve performance accountability. Performance measurement is used to assess the success or failure of implementing activities based on pre-defined goals and objectives. The adoption of the concept of performance measurement has an impact on the development of clear goal (goal setting theory) and targets become more specific so that the direction given to subordinates will be clearer. Performance measurement indicators in public organizations can use the concept of value for money which consists of economy, efficiency and effectiveness (Mardiasmo 2004: 130).

Based on research conducted by Nitzl et al (2018), the performance measurement system in the public sector is the adoption, implementation and use of performance information that will produce a beneficial effect on improving organizational performance. The results of this study are supported by Primastiwi (2017) who explains that the use of a performance measurement system for exploration purposes also affects the performance of local governments. So that the hypothesis is formulated, namely:

H4: Performance measurement affects performance.

2.5 Effect of incentives on performance

Incentives can create an impetus for someone to want to work better and to be abler to achieve a higher performance increase so that it can arouse the work passion and motivation of an employee, so someone wants to work well if there is a strong motivation in him (Tandri et al., 2018). Agency theory also explains that a person is rational and tries to put forward and maximize his needs compared to the interests of his organization. Thus, agency theory assumes that incentives have a fundamental role in motivation and performance control because individuals have an interest in improving welfare for themselves.

Based on research conducted by MA Putri and A Widjana (2019), explained that incentives affect the performance of employees in public sector organizations. The results of this study are also supported by research conducted by Rozi (2019) which provides an explanation that there is a significant influence between incentives on the performance of District employees. So that the hypothesis is formulated, namely:

H5: Incentives have an effect on performance.

2.6 The role of New Public Management strengthens the relationship between: clear and measurable objectives, decentralization, government internal control system (SPIP), performance measurement, incentives and performance.

The implementation of a modern public administration system contained in the New Public Management is certainly believed to be able to answer the demands of building performance budgeting that have strategic and practical characteristics. New Public Management focuses on public sector management that pays more attention to performance achievement and public accountability. Particularly strong focus on efficiency, client orientation, performance indicators and human resource management techniques, such reforms are a stark contrast to bureaucratic values (Fotaki and Jingjit, 2018).

In general, the application of New Public Management has been described as multifaceted, which aims to foster a variety of values, beliefs, and intentions, referring to development, results, and group culture (Gruening 2001, in Nitzl et al 2018). More specifically, New Public Management's emphasis on productivity, goal orientation, and efficiency seems to fit with a results-oriented culture. Focus on flexibility and innovation according to a developmental culture. Whereas managerial autonomy, employee empowerment, decentralization of decision-making, and sharing a common vision seem to fit the group culture (Parker and Bradley 2000, in Nitzl et al 2018).

The results of research conducted by Nitzl, et al (2018) concluded that the orientation of the New Public Management strengthens the relationship between performance measurement and the type of

monitoring the use of performance information on organizational performance.

H6: The Role of New Public Management Orientation strengthens the relationship between: Clear and measurable objectives, Decentralization, Government Internal Control Systems, Performance Measurement, and Incentives with Performance.

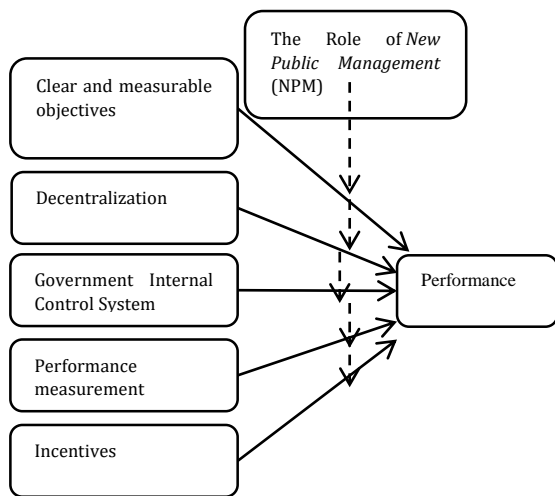


Figure 1. Research Framework

3. RESEARCH METHOD

The type of data used in this research is quantitative data in the form of numbers from the results of the respondents' opinions in filling out the questionnaire. So that the data source used by the researcher is the primary data source (data directly obtained from the intended respondents). Primary data used in the form of a questionnaire. Secondary data sources are also used to support primary data in this study.

The population in this study was OPD in the Sampang District Government. Researchers took a sample of 30 OPDs with respondents consisting of employees who served as OPD Heads, OPD Secretaries, OPD Heads, OPD Sub-Section Heads and OPD Sub-Division Heads in Sampang Regency who have the authority to make decisions in an OPD.

The sampling technique used in this research is quota sampling technique. Quota sampling is a sampling technique with an amount determined by the researcher. The analysis technique used in this study was PLS-SEM to test the six hypotheses

proposed in this study. Each of these hypotheses will be analysed using the Smart-PLS application to test the relationship among variables. The variables divided into three variables:

1. Independent Variable

a. Clear and measurable goals

Goals are outputs that are expected to occur in the short and long term (Murniati et al, 2016). Instruments for measuring the level of clear and measurable goals use an instrument developed by Verbeeten (2008) and also adopted by Primatiwi (2017), as well as an instrument developed by Nitzl et al (2018). This instrument consists of 7 indicators contained in the questionnaire.

b. Decentralization

Decentralization is the transfer of authority concerning both legislative, socio-administrative and administrative aspects from a higher level of government to a lower level of government. Then the local government delegates to the work units under it because the work unit better understands the needs of the community (Irzan and Abdullah, 2018). The decentralization instrument was developed by Miah and Mia (1996). This instrument has been used by Meliza (2018) and has also been adopted by Soleman, et al (2019). Instruments related to the power to make decisions. This instrument consists of 4 indicators contained in the questionnaire.

c. Government Internal Control System

According to Remane et al (2018), the internal control system is a process designed to provide reasonable assurance regarding the achievement of organizational goals and objectives in categories that include; (1) reliability of financial reports, (2) effectiveness and efficiency of operations and (3) compliance with commonly applied laws and regulations. The internal control system instrument is based on an instrument developed by Arens in Putri (2013) and also adopted by Sunarmo et al (2018). This instrument consists of 5 indicators contained in the questionnaire.

d. Performance Measurement

Performance measurement can be used as a standard for achieving a strategy through financial and

non-financial measurement tools (Sartika, 2017). A performance measurement instrument based on that developed by Sartika (2017) and has been adopted by Wibowo (2019). This instrument consists of 4 indicators contained in the questionnaire.

e. Incentive

Incentives or rewards are additional employee income which is given as a reward on the basis of performance achievement (Minister of Home Affairs Regulation No.13 of 2006). Incentives can create an incentive for someone to want to work better and to be more able to achieve higher performance improvements so that they can generate passion for work (Tandri et al, 2018). The incentive measurement instrument was developed by Verbeeten (2008) as well as the instrument developed by Chong and Law (2016) which was adopted by Nugraheni (2019). This instrument consists of 7 indicators formulated in a questionnaire.

2. Dependent Variable

The dependent variable in this study is the performance of local government. Performance is the work unit's achievement in realizing predetermined goals and targets (Tandri et al, 2018). The instrument used to measure performance was developed by Verbeeten (2008) which is specifically designed to measure the performance of public sector organizations and has also been adopted by Primastiwi (2017). This instrument consists of 6 indicators formulated in a questionnaire.

3. Moderation Variables

The moderating variable in this study is the New Public Management Orientation. New Public Management has been described as multifaceted, which aims to foster a variety of values, beliefs, and intentions, referring to the development, results, and group culture (Gruening 2001, in Nitzl et al 2018). The instrument used to measure the New Public Management orientation variable was developed by Nitzl et al (2018). This instrument consists of 6 indicators formulated in a questionnaire.

4. RESULTS AND DISCUSSION

4.1 Evaluation of Outer Model or Measurement Model

A. Validity test (Convergent Validity)

The rule of thumb used to assess convergent validity is the loading factor value for confirmatory

research, the loading factor value is more than 0.70 for exploratory research, namely the loading factor value is more than 0.60.

B. Validity Discriminant (Discriminant Validity)

Result test shows that the AVE squared correlation value for each variable is higher than the AVE square correlation value between variables and other variables used in the study so that it can be said to be valid because it has meet rule of t-Humb it.

C. Reliability Test

Result test shows, the column section of Cronbach's alpha and composite reliability shows that the variables used in the study are valid because they have met the rule of t humb.

4.2 Evaluation of Inner Model or Structural Model

Result test shows the R-Square value produced by the Performance construct value (Y) of 0.528. The results of the R-Square value indicate that the dependent variable model is moderate. The value generated by R-Square shows that the independent variable in this study is able to explain the dependent variable by 52.8%. Meanwhile, the rest is influenced by other variables not examined in this study.

5. DISCUSSION

5.1 Effect of Clear and Measurable Goals on Performance

Based on the results of hypothesis testing shows the T-Statistic value is $2.460 \geq 1.96$. This means that hypothesis 1 clear and measurable objectives affect accepted performance. This is also supported by the results of research conducted by Primastiwi (2017) which states that clear and measurable goals have an effect on performance. The results of Primastiwi's (2017) research are proven by Ridwan and Mus'id (2019) and Anshori et al (2019) which state that clear and measurable objectives affect the performance of public sector organizations.

Ridwan and Mus'id (2019) explain that setting clear and measurable goals is very influential in the formulation of Local Government Work Plans (RKPD). The existence of goal setting theory can help the government to maintain continuity between planning, budgeting, implementation and achievement of the organization.

5.2 The Effect of Decentralization on Performance

Based on the results of hypothesis testing shows, the T-Statistic value is $0.461 \leq 1.96$. This shows that hypothesis 2 which states that decentralization has an effect on performance cannot be accepted (rejected). This means that decentralization has no effect on performance. The results of this analysis are inconsistent with the results of the analysis conducted by Sari et al (2016) and (Davila et al (2018) stating that decentralization has an effect on performance.

In this study, decentralization has no effect on the performance of public sector organizations. The application of the decentralized system as stipulated in Law no. 23/2014 on Regional Government (Revised Law No. 32/2004). In reality, there are still many regions in Indonesia that are not ready to implement a decentralization system, especially in the scope of budgeting, some regions are still unable to be independent and are still unable to carry out thorough development planning.

5.3 Effect of Government Internal Control Systems on Performance

Based on the results of hypothesis testing shows, the T-Statistic value obtained in Hypothesis 3 is $2,349 \geq 1.96$. This indicates that hypothesis 3 which states that the Government Internal Control System affects performance is acceptable. In other words, the Government Internal Control System has an effect on performance. This is also supported by the results of research conducted by Sari et al (2016) and Sunarmo et al (2018) which state that the Government Internal Control System has an effect on performance. The results of this hypothesis are also strengthened by the statements contained in PP. 60 of 2008 that the purpose of internal control is to provide adequate confidence in agency theory on the achievement of financial reporting reliability, organizational effectiveness and efficiency and compliance with applicable laws and regulations.

5.4 The Effect of Performance Measurement on Performance

Based on the results of hypothesis testing shows, the T-Statistic value obtained in hypothesis 4 is $1.596 \leq 1.96$. This shows that hypothesis 4 which states that performance measurement has an effect on

performance is rejected (not accepted). Because the T-Statistic value is less than 1.96. This means that performance measurement has no effect on performance. The results of this study are inconsistent with the results of research by Nitzl et al (2018). However, this study is consistent by Audina et al (2018) which states that performance measurement has a positive insignificant effect and is supported by the results of research from Ahyaruddin and Akbar (2016) which did not find a significant relationship between the use of performance measurement systems on organizational performance.

5.5 The Effect of Incentives on Performance

Based on the results of hypothesis testing shows, the T-Statistic value obtained on the hypothesis 5 is $0.604 \leq 1.96$. This shows that hypothesis 5 states that incentives have an unacceptable effect on performance (rejected). The results of this study are consistent with the results of research conducted by Tandri et al (2018). This is also supported by the research results of Ridwan and Mus'id (2019) which state that incentives have no effect on performance.

It is stated in the Agency theory that each agent is rational and tries to take advantage of its utility (Bonner and Sprinkle, 2002). However, incentives are not an extrinsic motivator for individuals or work units in public sector organizations to perform better. This is contrary to the statement contained in agency theory which states that incentives can create an incentive for someone to want to work better. Based on the situation in government, the incentive function does not play an important role apart from the main task of the government is to provide services to the community.

5.6 The Role of New Public Management Orientation strengthens the relationship between: Clear and measurable objectives, Decentralization, Government Internal Control

Systems, Performance Measurement, and Incentives with Performance.

Hypothesis testing on the moderation of the New Public Management orientation shows that there is no significance of the moderating variable in moderating the relationship of the independent variables to the dependent variable in the UTAUT model. The results

of this study are inconsistent with the results of research by Nitzl et al (2018). The orientation of the New Public Management is able to have a good impact on improving performance which in turn will be able to improve the quality of public services which is the main task of public sector organizations. However, in many ways, the implementation of the New Public Management orientation in the Sampang district is still not fully understood so that often the policies taken do not support public services in accordance with the concept of New Public Management (Sayidah et al 2015).

6. CONCLUSIONS

Clear and measurable objectives as well as the Internal Control System of the Government of influence on performance. Decentralization, performance measurement, incentives have no effect on performance. From the research model used, it is known that the independent research variable used can affect the dependent variable by 52.8%. Meanwhile, 47.2% was explained by other variables which were not examined.

Future research can confirm the characteristics used for research sampling, can complement the data with structured interviews or by using secondary data, for example LAKIP to complement data collection and can use research instruments from other sources.

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