Government Performance Complex Regarding Principal-Agent Relationship

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Abstract. Public issues are the main problems that must be handled by the government. Organizationally, the government or the state are public institutions established for the public interest. Therefore, problems such as poverty, education, health, and so on, which are considered public problems, must be handled properly by the government. If these problems can be handled by the government, then the government's performance can be considered good. However, the complexity of public problems makes it difficult to determine government performance measurements. The ministries in the government cannot operate independently, but must be in contact with other ministries. Thus, the principal-agent relationship in public institutions, internally experiences quite high complexity. The one ministry success cannot be measured by one ministry success itself, but it depends on other ministries, vice versa. There are quite a lot of interfaces between principals and agents which results in increasingly complex performance measurements in the public sector. With qualitative methods supported by secondary data through literacy studies, this paper is expected to be able to provide an in-depth understanding regarding the complexity of performance measurement in the public sector seen from the principal-agent relationship. It is hoped that this paper will also make a major contribution regarding performance measurement in the public or government sector.

Keywords: Government Performance, Principal-Agent, Complexity, and Performance Measurement.

1   Introduction

Performance is one of the main indicators of the success of an organization, including public organizations. Since the implementation of business values in public organizations in the New Public Management (NPM), performance has become an important element in government. Thus, the main concentration on each leader in public organizations tends to improve performance (Denhardt and Denhardt, 2007). Not only that, performance also shifts traditional forms of accountability to performance-based accountability (Peters, 2007). The importance of the position of performance in this public organization, makes all elements in public organizations performance-oriented. Meanwhile, to achieve this performance, it is necessary to have freedom from the routines and regulations that arise from the administrative system (Kaboolian, 1998).

This freedom indicates that the application of business value through NPM in the public sector is still visible. Although basically, freedom is a term used by the business sector to be able to compete in quite massive changes, the public sector in implementing NPM also applies freedom. As Osborne and Gaebler (1992) stated that one of the characteristics of NPM implementation is the use of changes based on the market environment. Instead of controlling the situation in its territory, the state is required to be able to adjust to the market. However, with this freedom, performance measurement in the public sector is more complex than ever before. With this freedom, the success of the public sector, whether state, province or city or district cannot be generalized or standardized.

This freedom of values is indeed a problem in measuring the performance of public organizations. However, basically, problems that occur in society are complex problems and require high flexibility in handling efforts. Many previous studies have described the incompatibility of principal-agent theory in public organizations. Lane (2012) explains that the problem in principle-agent theory in public organizations is that there is asymmetric information, namely moral hazard and adverse selection between agents and principals. Therefore, in the problem of poverty, for example, the many dimensions of poverty make it possible to say that the handling of poverty by the government has been successful on the one hand, but has not been successful on the other. So,

In this way, the question of how complex the application of principal-agent theory is in public organizations, namely government, is a question that needs to be answered. To answer this question, the next section explains the procedure or method for answering the question. This method is then followed by collecting data both empirically and conceptually so as to produce an analysis related to the research question. This analysis is also what then produces the conclusions of this article.

2   Methods

This study used a qualitative method with second-by-second data as the input data. Any amount of second-by-second data can be taken from a book, the internet, an electronic journal, or other sources of reference. In addition to that, data was searched using the Google Scholar, International Journal, and key words related to "government performance," "principal agent," "performance measurement," and "government complexity." After receiving the article that is related to the key phrase, the next step is to create the article that will be used as a reference and documentation for the study. Following the analysis of the necessary references, the next step is to suspend the writing. The findings of this study demonstrate that government performance is a complex activity with a connection to the relationship between the principal and agent.

3   Result and Discussion

3.1   The Diversity of Public Problems Causes

So far, performance measurement has been one of the indicators of a government's success, it was even explained earlier that performance is an indicator of government accountability. The performance measure itself is the impact of the development of the NPM paradigm which was initiated in developed countries. The NPM paradigm itself is the infiltration of business values into the public sphere, not only limited to the technical aspect, but also to the realm of values or norms (Denhardt and Denhardt, 2007). However, in its development, performance measurement in the public sector is far more complex than in the business sector. The measure of profit orientation in the business sector is the main measure of performance measurement. Good performance necessarily indicates increased profits, and vice versa. Meanwhile, in the public sphere,

On the other hand, in terms of complex problems, the state is also faced with freedom of values from the measure of its success. One example, the problem of poverty is a problem that occurs in almost all countries in this world. However, the measurement of poverty standards in each country may vary. The World Bank measures poverty using a standard measure of each person's spending. The World Bank says that if someone lives below US$ 2.15 or the equivalent of Rp. 33,518 a day, then that person is said to be poor (World Bank, 2022). Meanwhile, the Central Bureau of Statistics (BPS) does not fully implement this. The poverty line, according to BPS, is a reflection of the minimum spending rupiah that a person needs to meet their needs for one month (BPS, 2022).

On the other hand, Amartya Sen (1979) argues that there is no absolute measure of poverty, even though there is, an absolute measure is not sufficient to measure poverty levels. Thus, measurement using only income levels cannot be used as the sole measure of poverty levels. Thus, Xaba (2016) formulates Sen's opinion that poverty is not only a lack of physical access such as food, clean water, education, health, but also a lack of social needs, namely a lack of choices in life. This shows that basically poverty is not only based on economic problems, but also has elements of education, health, food, and even political issues. So, basically, reducing the poverty rate is not the result of just one public organization,

3.2   Using Principal-agent Theory Amidst Solving Public Problems

One public problem, as previously explained, demands that the government not only involve one organization, but rather involve various kinds of organizations, even non-governmental organizations, such as businesses and non-governmental organizations (NGOs). From an organizational management point of view, having its own structural flow makes measuring organizational performance increasingly complex. Basically, principal-agent relationships can be found in public organizations but with higher complexity compared to private organizations because they can involve outside organizations such as NGOs (György, 2012).

In Indonesia itself, the problem of poverty which also involves the sectors of income, employment, health, education, natural resources, and politics, of course, also involves several organizations, both internal and external. From an internal standpoint, in Government Regulation Number 46 of 2015, the Ministry of Social Affairs is the ministry whose task is to deal with the problems of the poor (BPK, 2017). However, when viewed from the poverty measure described in the previous section, the reduction in the poverty rate from 9.71% in 2021 and 9.54% in 2022 (Javier, 2022) cannot be used as a benchmark for the success of the Ministry of Social Affairs' performance alone. Ministry of Education, Culture, Research and Technology, Ministry of Manpower, and other ministry that related with the causes of poverty are participate to this poverty alleviation.

On the other hand, organizations outside the government also contribute to reducing poverty. Internationally, there are at least 25 NGOs that have dedicated their organizations to fighting poverty. This number is not yet from NGOs that have emerged nationally and have the same goal of alleviating poverty. On the other hand, if poverty is associated with job opportunities, then the business sector also has a stake in poverty alleviation. It is this complexity that makes government performance measurement related to one problem, namely poverty increasing and even impossible to measure. If it is linked to the principal-agent theory,

then in this case, the higher allusions that occur between principals and agents when linked to public problems.
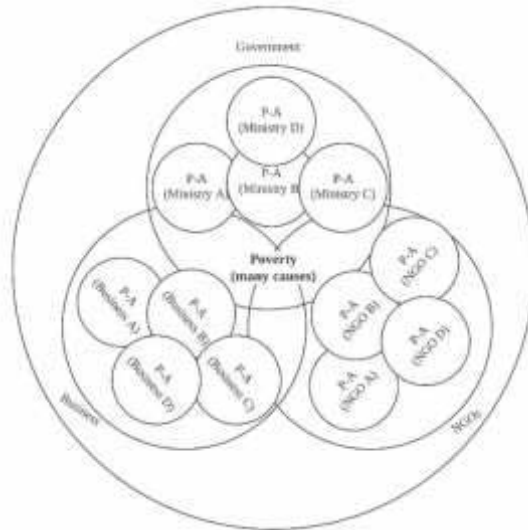

Fig. 1. The Complexity of Principal-Agent in Handling of Public Problems.

Figure 1 shows that in dealing with one problem, namely poverty, there is complexity when viewed from the point of view of principal-agent theory. First, the many causes of poverty make poverty not the responsibility of just one ministry, but the responsibility of several ministries. The problems of education, health, natural resources, and several problems related to the poverty measure that have been described previously also contribute to the problem of poverty. Second, external elements of the government also have a role in poverty alleviation. This of course intersects with public problems in which the government is the main actor in dealing with public problems. This is what then makes performance measurement in the public sector far more complex than the private sector, especially the business sector.

3.3   Complexity of Performance Measurement

Performance measurement has the potential to clarify the characteristics of public organizations by providing information to the public regarding the goals and achievement of goals that have been carried out by the government (Moynihan et.al., 2011). Performance is the most crucial aspect of an organization to research and gauge in order for management to understand how much effort each employee puts into achieving organizational objectives. Performance has several distinct definitions, according to many experts. Gibson explains performance as the outcome of work related to organizational goals, efficiency, and other performance's efficacy (in Tsauri, 2014). Ilyas, on the other hand, emphasizes that performance is an outward manifestation of what the organization's members have accomplished through their labour (in Tsauri, 2014).

All members of the organization not just those in functional or structural positions are subject to this look (Tsauri, 2014). According to Rue and Byars, performance is defined as accomplishing results or what is referred to as the degree of achievement. According to Bernardin and Russell, the term "performance" also refers to a record of work-related activities or tasks that were completed throughout a specific time period (in Tsauri, 2014). Performance is measured by the extent to which an organization can accomplish objectives based on prior objectives (Tsauri, 2014). In contrast to Rue and Byars, Robbins defines performance as the outcomes attained by workers based on standards that are relevant to a job (in Kamaroellah, 2014). Mangkunegara, on the other hand, is concerned with how well and how much (quality and quantity) someone accomplishes when performing their tasks in accordance with their responsibilities (in Kamaroellah, 2014). Considering the aforementioned experts' perspectives, it can be deduced that by performance, what is intended is the encouragement of someone's work that is unrestricted by a position and that seeks to achieve organizational goals as effectively as feasible.

According to these scholars, determined that performance is the quantitative measure to the organization. As explained before, the measurement of the main purpose of the organization, public organization especially, can not be measure with only quantitative data, but also qualitative. Quantitative data in one organization must be measured with quantitative data of other organization. Additionally, public problems must be viewed as qualitative problems that needs to consider complex measurement. With the

complexity of principal-agent also, the government performance can not be measured with the quantitative of achievement solely. This because the achievement of government is the outcome of complex principal-agent both internally and externally.

4   Conclusion

The importance of performance in public organization, makes all elements in public organizations performance-oriented. This measurement indicates that the application of business value through NPM in the public sector is still visible. Instead of controlling the situation in its territory, the state is required to be able to adjust to the market. This freedom of values is indeed a problem in measuring the performance of public organizations. One public problem, demands that the government not only involve one organization, but rather involve various kinds of organizations, even private organizations, such as businesses and non-governmental organizations (NGOs). This involvement, internally and externally, create principal-agent complex while dealing with public problems. Thus, the achievement of government in dealing with the public problem cannot be said of good government performance. Rather, it is achievement of the principal-agent complexity relation both internally and externally that makes performance measurement more complex.

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