

New Public Management Practices at Local Government in Indonesia: A Case Study of Wonosobo Government, Central Java

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Abstract

Shifting from bureaucracy model to entrepreneurial model as the main characteristic of New Public Management (NPM) has been taking place at local governments in Indonesia since the implementation of Law No. 32 of 2004 on Local Government. Performance appraisal, local financial management accountability, public service improvement, innovation, civic engagement in planning process, and one-stop service are outstanding examples of NPM practices at local governments in Indonesia. Using Wonosobo Government as a case study, this paper will address NPM practices at a local government in improving public service and government revenues. This study found that improvement of public service and capitalization of local government productive assets were two key strategies to encourage local competitiveness. Restructuring of bureaucracy was oriented to enhance the quality of the basic public service, while development of government corporation was aimed to strengthen the capacity of regional budgetary.

Key words: government corporation, local government, new public management, public service

1. Introduction

Dynamic changes in socio-culture, politic and economic field are mostly unpredictable. To respond them, the present governments are unable to rely on the traditional conservative ways in managing their resources. Public criticisms against the existing bureaucracy characterized by bureau-pathology and excessive power of bureaucrats have become a strong indicator for transforming the old model of governance. Osborne and Gaebler (1993) suggest that adaptive governance can be facilitated by entrepreneurial government model, which encourages government employees with competitive ways in order to optimize limited resources in innovative ways to accomplish productivity and effectiveness. Shortly, this mainstream is well-known as New Public Management (NPM) movement.

In Indonesia, since the implementation of Law No. 32 of 2004 on Local Government, governance paradigm has changed from bureaucracy to entrepreneurial model. NPM practices such as performance appraisal, local financial management accountability, public service improvement, innovation, civic engagement in planning process,

and one-stop service have been growing in some local governments. Some studies report that the concept of entrepreneurial government has been used by local governments to improve their governance (see Prasojo, Kurniawan and Hasan, 2004; Muhammad and Touruan, 2008). However, most of local governments are still implementing excessive regulation approach and high cost economy (Asia Foundation, 2011). Furthermore, the stories of good practices undertaken by local governments are often rarely published. Consequently, these are unable to answer the doubts of many local government stakeholders in the management of public services. Therefore, using the case of Wonosobo Government, this study tries to explore a local government in performing new public management practices to improve public services and government revenues.

2. Research Method

This research used case study to understand deeply about practices of Wonosobo Government in improving public service and the budgetary capacity. Informants were purposively selected from

Wonosobo Government officers involved in the efforts of bureaucracy reform. Data collection was undertaken from January-March 2014 by using indepth-interview and official documents. Data analysis applied a thematic approach (Neuman, 1997) in which data was categorized by themes to get a rich description of public management practices.

3. Results and Discussion

3.1. The Role of Transformational Leadership

Transformation of bureaucracy requires a leader who is fully aware of the problems of bureaucracy. Moreover, application of new public management should be supported by a strong leader, not a bureaucrat. A leader will be able to guide the process of change rather than a bureaucrat. Wortley and Tsao (1999:583) note that "leadership is essential in the process of government transformation. Reinvention of government is inspired from a charismatic leader". Our study found that the Head of Wonosobo Government (*Bupati*) in some occasions delivered openly the current condition of his bureaucracy characterized by low competence, low work ethic, not creative, low salary, not optimal service, ineffective proportion of personnel, stuck on administrative activities, high operational cost, overlapping regulation and authorities, low quality of service, pleonastic systems, and unresponsiveness. Based on this situation, the Bupati of Wonosobo Government has encouraged the program of bureaucracy reform as a long term strategy for improving his region.

A scientific study of work load and tenure analysis involving academicians from Gajah Mada University was undertaken by the Bupati of Wonosobo to facilitate his rational decision for downsizing the Wonosobo bureaucracy. Based on results of the study, he had rational reasons to respond any resistances from executive and

legislative members mainly those who would be loss of position in bureaucracy. One of the study results was a new organizational structure and governance which had a significant implication for reduction of staffs and local agencies. Although his idea was initially resisted by executives, the Bupati in collaboration with junior executive officers accepted a political legitimation from legislative to launch a new governance structure since the opponent party of some senior executive officers had no rational evidences to disprove it.

To embody the efforts of bureaucracy reform, there are two main strategies that the Bupati developed, as reported by our informant as follows: "Firstly, we refunctionalize the government institution and apparatus. Secondly, we apply business concepts to increase local revenues. The first is inspired by a new paradigm of public service which emphasizes basic services to public, while the second are based on a new public management movement." Then, these two strategies were formulated to encourage local competitiveness.

3.2. Refunctionalization of Institution and Apparatus

Apparatus expenditure is the biggest cost component in Local Governments in Indonesia including Wonosobo Government (see Table 1). For the last three years, it has achieved 52.16 percent to the total annual government budget on average. Certainly, this huge proportion of apparatus spending has pressured Wonosobo Government to manage their apparatus well. Unless, this can only be waste of public funds. Therefore, bureaucracy reform in Wonosobo is mainly focused on refunctionalization of institution and apparatus. The aim of the first strategy is to strengthen public service in line with both number of apparatus and quality of apparatus. The efforts to achieve the first strategy were (1) Human Resource Management: mainly arranging the

boundary of retirement age; (2) salary regulation: improving the apparatus incentive based on their performance to enhance work culture; (3) adaptation of work methods: enhancing number of functional staffs and applying technology and database; (4) fulfillment of working tools: application of effective

supporting tools; and (5) Improving work environment: application one-roof governance through one-stop service building area as a form of overhead cost efficiency and simplifying service access to public compared to the existing condition of offices fragmented in different areas.

Table 1.Percentage of Apparatus Expenditure to APBD

| Year | Percentage of apparatus expenditure to APBD |
|------|---|
| 2010 | 58,46 |
| 2011 | 48,00 |
| 2012 | 50,00 |

Source: The Annual Report on Bupati Accountability (2011-2013)

Currently, as reported by local daily news, to respond the issues of government expenditure efficiency the Bupati of Wonosobo delivers his plan to downsizing number of local service structure. He said as follows:

“In the local legal draft proposed in 2014, there are some structural changes in local service agencies. For example, the previous number of local service agencies reached fourteen, in future they will be decreased to seven. Some local services will be turned into the office level. Some agencies are also combined in one department. For example, in the future Social Service Agency will be merged with the Section of Public Welfare. In addition, some agencies at body level will be increased from 3 to 4. This plan is based on the development of public service needs. The principles of restructuring is based on the need for function and service. Thus, there are no overlapping activities that spend a large budget. In addition, it will also suppress a number of spending budget, mainly administrative costs.” (<http://radarsemarang.com/2014/01/04/juml>

[ah-dinas-dari-14-menjadi-7/](#), accessed in January 13, 2014)

3.3. Capitalization of Local Government Productive Assets

Regional autonomy in Indonesia has given an authority to local government to improve their own local revenue. However, the study of Mahi (2011) shows that optimizing local revenue through regional tax instruments does not significantly take effect to economic growth. This study, therefore, suggests that local governments should improve local business environment. Similarly, our study reported that Wonosobo Government no longer relies on regional tax as the only source of local revenue. As Tabel 1 shows, although regional revenue and expenditure (APBD) increases per annum, percentage of local revenue (PAD) to APBD remains at 7 percent per annum. According to our informants, “structure of regional revenue and expenditure cannot represent the capacity of regional finance since it doesn’t show a balance

between revenue and expenditure. Moreover, our local owned revenue is still insufficient to support basic public services such as education, health and

infrastructure”. Instead, Wonosobo Government is more interested in developing a business plan to boost local revenue than expanding regional taxes.

Table 2. Contribution of Local Revenue to Regional Revenue and Expenditure

| Year | Total Regional Revenue and Expenditure (APBD) in million | Percentage of Local Revenue (PAD) to APBD |
|------|--|---|
| 2010 | 720,254 | 7.15 |
| 2011 | 1,014,666 | 6.64 |
| 2012 | 1,107,938 | 7.43 |

Source: The Annual Report on Bupati Accountability (2011-2013)

There are three main programs developed by Wonosobo Government to expand their local owned revenue. First, recapitalization of village assets. The first program is aimed to provide productive lands for development of plantation or agribusiness with plasma systems. Currently, the local government involves some private companies such as PT Sidomuncul (agrobiopharmacy), PT Indo Lacto (dairy farm), and PT So Nice (livestock meat). These three companies act as the production core, while local community has a role as plasma to fulfill the market needs of the three companies. The function of local government in this cooperation is as a catalyst; bridging business interest, creating business opportunities, and providing large access to private sectors.

The second program is focused on the formation of high professional regional business corporations. The corporations are based on local potency, beyond the creative industries. To achieve this objective, the local government has undertaken the following efforts: (a) Local Act on Miscellaneous Business Corporation comprising of agroindustry, market management, management of gas station, trading and service; (b) Transforming the status of rural credit banks into the Commercial Banks of Wonosobo with shared ownership

between local government and rural governments. The aim of the ownership is to boost village revenues; and (c) Performing miscellaneous business in the present local government corporations such as water business corporation for producing bottled water, and PT Tambi for bottled tea production, and agrotourism.

Based on Table 3, the average contribution of local government corporations to local own revenue was about 5 billion rupiahs or only 1 percent for (the) last 3 years. This portion was too small to support the local government to finance their development activities. In addition, of 9 corporations there was one which had no profit. This circumstance certainly has given a financial burden for Wonosobo Government. Therefore, efforts to improving professionalism in running local government corporations through creating miscellaneous business and commercial banks were forms of response to increasing government productive asset.

Table 3. Annual Devident Development of WonosoboLocal Government Corporations

| Corporation | 2011 | 2012 | 2013 |
|------------------------------|----------------------|----------------------|----------------------|
| Drinking Water Business | 2,000,000,000 | 1,412,814,660 | 1,554,080,000 |
| Folk Credit Bank | 848,695,523 | 1,129,230,557 | 1,565,393,010 |
| RuralCredit Bank (A) | - | 72,254,633 | 307,331,143 |
| Rural Credit Bank (B) | - | - | 13,454,255 |
| Pharmacy | 7,264,161 | 85,708,100 | 45,592,300 |
| Commercial Bank | 1,270,571,126 | 1,235,212,310 | 1,551,355,655 |
| Agribusiness | 510,000,000 | 527,500,000 | 600,000,000 |
| Bimolukar | 39,841,238 | 35,081,000 | 36,132,000 |
| PRPP | - | - | - |
| Total Devident | 4,676,372,143 | 4,497,801,266 | 5,673,338,363 |

Source: Department of Economic, Wonosobo Government

The third program is opening the more widely productive investment and local small and medium entrepreneurs (SMEs) through the following activities: (a) providing easy access to business permit, (b) creating partnership between private sectors and local SMEs, and (c) promoting autonomy through credit assistance for local SMEs with low interest.

3.3. Findings

There are some findings based on the case study of new management practices in the context of Wonosobo government in Indonesia. Elements of new public management found in this study includes innovation in administrative and government business practices. In the area of administrative practices, attempts to restructuring government organization units was undertaken to get a rational and more simple bureaucracy. Merger among overlapping organizational units, human resource development, and improvement of organizational authority were based on the public need for better government services and cost efficiency. Interestingly, in the area of business development, the

local government in our study showed some efforts to expand local own revenues through strengthening of local government owned-enterprises instead of privatization. In developed countries, new public management practices suggested a shift towards privatization and quasi-privatization to improve market efficiency, reduce government deficits, and promote economic development (Hood, 1991; Luqmani and Quraeshi, 2011). However, in the absence of strong private sector, a local government in our case study tends to promote business enterprises extensively to enhance their local revenues rather than privatization. With the lack of fiscal decentralization for local government in Indonesia, attempts to strengthen management of local government owned enterprises and professionalism are a rational option to get more local own revenues in order to reduce dependency on the central government budgetary.

4. Conclusion

This study concludes that the NPM practices has inspired a governance reform at local government

level. The main objectives of this reform were double, namely: to improve the management of public service through refunctionalization of institution and apparatus and to promote the management of local government owned enterprises through capitalization of local government productive assets. To achieve these objectives, the top administrator at local government shows an active role in facilitating and strengthening the process of bureaucracy reform.

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