IMPLEMENTING THE BSC APPROACH IN RESPONSE TO STRUCTURAL POLICY CHALLENGES IN INDONESIA: A CASE STUDY OF THE MINISTRY OF FINANCE’S LEADERSHIP PERSPECTIVES

Implementasi Pendekatan BSC dalam Merespon Tantangan Kebijakan Struktural di Indonesia: Studi Kasus Perspektif Kepemimpinan di Kementerian Keuangan

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ABSTRACT

One tool used for strategic performance management in the public sector organisations is the Balanced Scorecard (BSC) approach. The BSC can assist the definition of comprehensive strategic objectives, better key performance indicators and improved organisational performance outcomes. The BSC system not only promotes synergy and alignment of strategies among that of departmental and functional units, but also it promotes strategic communication for decision-makers to sustain high organisational performance outcomes. Based on the leadership accountability framework as a means to analyse the process of improving and sustaining public sector performance outcomes, this study also

Kata Kunci: balanced scorecard, kepemimpinan strategis, kinerja sektor publik

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found that four key elements contributed to the successful implementation of the BSC to improve and sustain public sector performance: leadership effectiveness, strategy and HRM "fit" management, balanced performance management system and performance governance. Moreover, the research supported the hypothesis that strategic leadership is a necessary condition for the implementation of new and complex performance management tools in the Indonesian public service and for sustaining the performance improvements created by tools such as the BSC.

Keywords: balanced scorecard, public sector performance, strategic leadership

I. INTRODUCTION

Since the economic crisis in 1998, in the midst of a highly bureaucratic culture with its unique transition process towards becoming more democratic, the Indonesian public sector has been implementing various reforms to enhance its accountability and transparency in relation to performance outcomes. Those various reforms implemented in Indonesian public sector management have similarities with the New Public Management style reforms introduced in many developed economies decades ago. One of the reforms is the implementation of outcome-based strategic performance management. Three out of four pilot units for the bureaucratic reform agenda implemented the balanced score card (BSC) as a holistic tool to improve and sustain the organisational performance outcome (IMOF 2008).

The paper is structured in several parts as follows: the background, rationale and context; the literature review; leadership accountability for performance framework; methodology; methods and data collection; case analysis and conclusion. The proposed leadership accountability for performance framework is a synthesis of the leadership roles in implementing the performance management system based on the BSC approach. The framework was developed and then used as a model for analysis. Finally, the ultimate research outcome for this study is expected to provide comprehensive analysis of the factors that contributed to the success of implementing the performance management system based on the BSC.

Several characteristics of the traditional bureaucracy have been identified as challenges in expecting public sector organisations to perform well in many countries. Researchers have identified key factors such as too much political influence in the public sector leadership and management, lack of accountability for performance outcomes, the patrimonial system, the non-merit based system and incompetent human resources, and lack of sustainable performance and governance in the bureaucracy (Wescott, 2008; Girishankar, 2001). Public sector reform under the New Public Management paradigm then placed a strong emphasis on public sector reform (Hood 1995). Pollitt and Bouckaert (2004) define public sector reform as intentional changes in the structure and processes of a public sector organisation, even though in some countries the success of the reform initiative is still in question (Girishankar, 2001). One of the prominent aspects of public sector reform is the promotion of public sector performance management based on the results/outcomes (Girishankar, 2001, Rose and Lawton 1999, Hood 1995).

For Indonesia, several indicators published internationally justified the need for improvement and change. According to Transparency International's Corruption perception index for 2007, Indonesia's rank was 143rd of 180 countries. In terms of the World Competitiveness Rank 2008, Indonesia was ranked at 51st of 57 economies. In relation to the Economy Rankings – World Bank Ease of Doing Business in 2009 report, Indonesia was at 129th of 181 countries. These numbers clearly indicate that continuous effort to improve the country's performance is necessary. In Asia, according to the Political Economic and Risk Consultancy (PERC) survey in 2009, Indonesia was ranked as the most
corrupt country in Asia. Indonesia was graded at 8.32, in a grading system with zero as the best possible score and 10 the worst (PERC, 2009). The previous year, Indonesia with Thailand came joint second most corrupt countries in Asia. This level also indicates that the corruption eradication program is not yet effective and systemic corruption can be regarded as the most critical problem in the Indonesian bureaucracy (Husodo, 2008, PERC 2009). It is publicly known not just by the government as the major bureaucracy problem in addition to the whole government leadership problem due to the oversized organisational structure and overlapping laws; the mismatch between strategy and HRM because of lack of staff competencies; poor accountability of the performance management system; and poor quality of public service delivery due to lack of concern about citizens’ constitutional rights (Prasodjo, 2012; IMOF, 2008).

The corruption problem has been in the Indonesian bureaucracy since the early government of the Republic of Indonesia until the fall of the Soeharto regime in 1998 (Husodo, 2008). But it also seems to be continued as one of the greatest obstacles in the current Indonesian public sector (Prasodjo, 2012). Government concerns about eradicating corruption and other problems in the bureaucracy have led to the emerging demand to engage in the public sector reform agenda. In addition, with such great people potential, more than 240 million people, Indonesia has an enormous domestic market as well as potential regional market in South-East Asia. The Indonesian democracy seems to have firmer foundations and the dictatorship has already disappeared, even though to assume that it is entirely built, it would be not the case at the moment. People might have different opinion about the impact of the public sector reform on social and economic life. However, whether the change initiative has successfully led Indonesia into the shape of the public sector reform is still dubious. There is increasing expectation that Indonesia should have higher targets for its change and performance outcomes. So, it is necessary to enable public sector organisations to achieve high levels of performance in terms of better public services. Especially in the 21st century with high levels of volatility, uncertainty, complexity and ambiguity, the framework for leadership accountability for sustainable performance outcomes is becoming a key issue in leading and managing public sector organisations around the world (Budiarso and Monir, 2012).

Reform in the Indonesian public sector can be divided into the three different stages. The first stage began after the fall of the Soeharto regime in May 1998. At this stage, reform can be defined as the national movement to have big bang change in responding to criticism on the way its bureaucracy behaves due to too much centralism and patrimony in the bureaucracy which has led to massive collusion corruption and nepotism (KKN) practices; mismatch between the policy and the personnel practices especially in recruitment and remuneration, problematic financial management; and complex relations with outside groups and all kinds of “too much” procedures (Toha, 1987; Yudhiatara, 1997; Hughes, 2003; Gregory, 2003; Effendi, 2009). The Indonesian bureaucratic reform strategy then targeting pilot organisations such as the KPK, Indonesian Ministry of Finance, the National Audit Office (BPK) as an effort to eliminate of decades of deeply rooted corruption practices and to change the foundation of the government delivery service to achieve three main organizational outcomes: organization modernization, business process improvement, and improvement on managing human resource apparatus. (Effendi, 2007). During the later stages, since 2010, the Indonesian bureaucracy reform agenda has been targeting a wide range of Indonesian bureaucratic systems under the coordination of the Ministry of Bureaucracy Reform and State Apparatus Empowerment and the Office of Indonesian Vice President (Prasojo, 2012).

The main focus the study is on the Indonesian Ministry of Finance (IMOF) as one of the pilot units for the Indonesian bureaucratic reform agenda. It has been successfully changing its HR/Personnel Department traditional focus and practices towards more strategic HRM management.
Moreover, it has been modernizing its public delivery offices, particularly the tax, customs and treasury offices throughout Indonesia by cutting out red tape and accelerating the business processes of a range of public services delivery; and improving its remuneration system simultaneously. One obvious achievement is the implementation of a strategic performance management system based on the BSC approach during 2007-2009. The former Minister, Dr. Sri Mulyani Indrawati, represents a leader whose high level of integrity and strong commitment to achieving better organisational outcomes. She was put high standard of discipline to managers who committed to be unfaithful and corrupt. She successfully lead the ministry to create strategy maps and identify key performance indicators based on the ultimate stakeholders’ perspective as the centre of the BSC performance management system.

Meanwhile, there are research findings, which argue that accountants can become a useful partner in strengthening the public sector accountability under the reform agenda especially in the process of changing objectives and promoting holistic accounting management control system for performance (Mir and Rahaman 2006, CIPFA 2011). For instance, the demand for the leadership accountability framework for performance outcome has been noted by the emergence of innovative and multidimensional performance management systems/frameworks. Those systems work reasonably well in the private sector, and based on the recent literature, those systems also applicable for improving public sector performances (Rhodes et al. 2008, Michalska 2008, Brignall and Modell 2000). Those frameworks include the European Foundation for Quality Model and the Business Excellence Model (Michalska 2008), the Malcolm Baldrige National Awards Framework (MBNA 2009) and the Balanced Scorecard (Rhodes et al 2008; Kaplan & Norton, 2004; 2004a; 2001; 1996). Implementing these approaches requires strong leadership roles to better serve broad organisation’s stakeholders by focusing and aligning the whole organisation to manage high value standard financial and non-financial performance indicators (Brignall and Modell 2000).

Moreover, to enhance leadership accountability at all levels and as one of the management accounting tools for balanced control, the BSC can become not only as a measurement system, but also as a strategic performance management tool to achieve competitive advantage and sustain performance excellence (Kraines 2002, Kaplan and Norton 2004a, Kaplan 2009). In the hand of leaders, the BSC is a set of performance measures that gives them a fast and comprehensive view of strategic business performance (Kaplan & Norton 1996; 2001, Chan, 2009). It includes financial measures that tell the results of actions already taken and also non-financial or operational measures, such as customer satisfaction, the internal process, and the organisation’s innovation and improvement activities. Operational measures are also known as the drivers of future financial performance.

As many private sector and advance public sector government units got benefit from the BSC as a holistic performance management tool (Umashev and Willet 2008; Mathys and Thompson 2006, Kaplan and Norton 2004a), this research contributes to the international public sector accounting and leadership literature by pursuing two research objectives. Firstly the study examines the extent to which the minister and all Echelon I under the IMOF implements the BSC to improve its strategic performance management system under the bureaucratic reform agenda. Secondly, the study investigates various factors contributed in the successful implementation of the BSC and refined the leadership accountability framework to improve and sustain public sector performance outcome which previously developed based on the existing literatures (Draft &Pirola-Merlo 2009; Jing & Avery 2008; Bouckaert & Halligan 2008; Graetz 2006; Ireland and Hitt 2005; Kaplan and Norton 2004, Van Wart 2003). The research finds that the major role in implementing the BSC in the IMOF was played by the leadership in the organisation. The findings also support the ideas put forwarded by previous researchers in promoting a sound leadership role in implementing the BSC in public sector (Umashev and Willet 2008, Hoque and Adams 2011, Kaplan 2005). Under such circumstances, and based on the
result of the exploratory study on how leadership role contributed in the implementation of the BSC in the IMOF, this study also promotes the Leadership Accountability Framework to improve and sustain public sector organisational performance outcomes.

II. LITERATURE REVIEW

Performance is a subjective, constructed and currently become widely challenged phenomenon. Its subjectivity broadens in terms of who will ask about it and whether there is a proper criterion to measure it, how it is defined and how to measure, by whom and what purpose. Ideally, performance management is an ongoing communication process, undertaken in partnership, between an employee and their immediate supervisor that involves establishing clear expectations and understanding about job functions, contribution, ability, compatibility, measurement and barriers (Shields, 2007). Furnham (2004) used the term performance management system (PMS) as a system that consists of performance setting, performance appraisal and performance review/evaluation. In addition, he also noted that the development of effective PMS is still growing, and in almost all study about its implementation majority end up with failure and frustration. However; companies who are successful at implementing PMS report that the benefits of the PMS outweighed the time and effort it took and that it allowed them to manage their businesses better (Bourne et al., 2002).

Several PMS dimensions might create flaws in the implementation of performance management system due to its complexity. Those are the approach of the PMS, the internal and external factors surround the PMS concept, and the dynamics of the PMS tools adopted by the organization. With regard to the approach of the PMS, various perspectives exist in the development of PMS tool or framework for particular organisation. Selecting PMS model for particular organisation should also consider whether the approach or the framework of the PMS model in the discipline background studies, whether it will be suitable with the purpose of PMS implementation in the organisation. For instance, several approaches of the PMS studies can be identified whether it was prescriptive, descriptive, critical structuralist or critical post structuralist perspectives (Shield, 2003). Understanding the appropriate PMS approach before it was selected and scrutinized may create better confidence in handling problems in practice or adjusting the PMS approaches if necessary (Shield, 2003).

The internal dimension on PMS deals with several aspects in organisation such as communication & relationship building, employee development, performance evaluation, and its relation with the remuneration policy. The organisation should aware about its dimensions. In addition, there are external factors such as competition, technology that drive the organisation to change its strategy and directions. Moreover, the organization should realize its magnitude especially to people’s expectation, capacity, evaluation, support, motivation and infrastructure.

The dynamic of the PMS concept seems to be multidimensional (Rao, 2008). Several types of performance management tools in practices can be identified. Its weaknesses always become preferred study and subject for evaluation to strengthen its applicability. Several model on framework for performance managements are enhanced and growing. PMS also may serve several purposes, however some researchers cautions against relying on PMS to do everything (Murphy and Cleveland, 1995). People should aware about its dynamics and consider which type of system or approach will fit with the organization characteristics. However with the coming of TQM concept in which requesting total focus from all employees to preserves quality of service for the organisation outcomes, there are many models currently available to serve as PMS for the organisation to achieve excellence performance outcomes. The demand for the total leadership accountability framework for performance outcome has emerged by the coming of innovative and multidimensional
Performance management systems, which works reasonably well in the private sector, but it is currently also applicable for the public sector (Rhodes et al. 2008, Michalska 2008, Brignall and Modell 2000). Those frameworks include the European Foundation for Quality Model and the Business Excellence Model (Michalska 2008), the Malcolm Baldrige National Awards Framework (MBNA 2009) and the Balanced Scorecard (Rhodes et al 2008; Kaplan & Norton, 2004; 2004a; 2001; 1996). Implementing these approaches requires strong leadership roles to focusing organisation to better serve broad organisation’s stakeholders, setting high value standard for financial and non-financial performance indicators as the key factor for the performance improvement (Brignall and Modell 2000).

Based on the study on how organizations drive results through PMS, five key advantageous from the success of PMS are establishing performance management as an organizational priority rather than focusing on performance appraisal and generation of ratings (focus on strategic performance improvement), capacity building for managers at performance improvement, strengthening performance accountability, promoting business alignment, and better managing employee goal realization. (Rao, 2008). However, based on the survey on a number of managers from three organizations: an MNC, a family-owned business, and a professionally managed company from abroad, Rao (2008] observed that there are also five problems found in PMS including: inadequate managerial focus, insufficient managerial skills to improve performance, narrowly defined ownership, disconnect with strategy or inadequate linkage to business drivers and failure to execute.

Lack of understanding about the very nature of the system and lack of proper actions on the dynamic of its systems due to internal and external causes may create flaws on PMS in the organization. Measuring employee’s job performance is always on the dilemma with regard to the expectation, capacity and manager’s support. Grote (1996) documents several factors leading to apathy towards PMS including: lack of employee and manager’s ownership of the system, negative tendency to cope with bad news, behavioral impact on performance evaluation and appraisal, scarce rewards attributed to performance, and mixed personal reflection regarding the system. (Furnham, 2004).

There is no conclusive research that confidently connecting the organisational performance improvement and the performance management system and people in the organization, particularly in public sector. With regard to the role of PMS with the greater strategic context, Bryson (2003) illustrated comprehensively that the use of performance management tools and techniques as a product of a sound PMS under the perspective of the strategic planning and management theory, will directly support the organizational effectiveness by increasing the system thinking and it will indirectly support the organisational effectiveness by promoting alignment of the strategic and operational concerns simultaneously. Moreover, literature on leadership and strategic management indicates much of offered theory focuses on effective in performance management processes, at the individual or organizational level (Bethany Detrich, 2009). Research positioned on whole system result, the usage and satisfaction with performance management system still problematic (Nankervis, 2006). Moreover previous study regarding the effort to maximizing stakeholders’ value has been less stress on both leaders and organizational performance outcome at the whole system perspective (Brewer, 2008). In addition there is an increasing demand for the holistic model for performance management that capable to connecting macro and micro organizational contexts, and even to measure individual employees effectiveness in the workplace (Wong and Snell 2003).

Nankervis and Compton indicated that the use of some performance management technique such as balanced scorecard and 360 degree/multi-rater feedback are poised to increase. In order to strengthen organization accountability, Brewer (2008) suggested that an organisation need to develop a framework in which explicitly include the concepts of leadership, business partnering, and continuous learning and improvement for performance improvement. That kind of framework
provides a better picture on how to add value to the stakeholders as the ultimate outcome of the organization and bring all necessary elements in the organizational system to provide better understanding about the relations and multi dimension of the performance management (Brewer, 2008).

2.1. The Origin and the Development of the Balanced Scorecard

One among many tools available to serve as PMS for an organisation is the Balanced Scorecard (Kaplan and Norton, 1996). Originally the Balanced Scorecard is an accounting management methodology that was introduced by Robert Kaplan and David Norton in the 1990’s. In the beginning (1990-1992), the BSC was applied for comprehensive performance measurement but in the next development (1993-1995), the BSC is applied to generate a comprehensive and coherent strategic plan.

In private business, the term “scorecard” is becoming central in the process of measuring and evaluating performances. The balanced perspectives of this approach are intended to be an effective tool in managing pathway of success and establishing "key performance indicators" (KPI) from various business units within the entity. Business units may include organisational functions/ departments such as operations, finance, human resources, and develop a system that capable to track the achievement of the intended department's performance and allow an entity to achieve its corporate strategy.

The first generation of Balanced Scorecard is an innovative idea to strengthen the traditional performance measurements that previously dominated by financial measures, and management focus for just only on the short-term perspective. So, the first generation of the BSC proposed to add additional measures based on additional three perspectives for leading management toward longer term of performance outcomes.

The word 'Scorecard' refers to cards used to record the score of personnel/group of people/unit performances. The Scorecard is also used to plan the target of score that should be reached in the future. While the use of the word 'Balanced' in Balanced Scorecard is meant to emphasize the need of balanced perspectives among key factors in the organisational performance measurement, balanced between external measurement (according to stakeholders and customers view) and internal measurement (viewed from business process which occur in company and learning and growth process), and balance between financial (quantitative) and non-financial (qualitative) measurement of outcomes, which generates sustainable performance in the future.

The first generation of the BSC perspectives consist of four performance measures categorized in four generally accepted strategy perspectives, as follows:

Financial Perspective – How do our shareholders identify financial success? Customer Perspective – How do we appear to our customers in achieving our vision? Process Perspective – What processes you must be exceptional at?

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

The second generation of the BSC reclassified the original perspectives developed in the first generation of the BSC particularly to strengthen the causal relationship between outcome measures and performance driver of outcomes (Hoque 2012, Kaplan and Norton 1992, 1996). The causal links between performance perspectives can be described as follows: the organisational and learning (as a new label for Innovation and learning) perspective is the driver of the internal business process perspective, the internal business process perspective is the driver of the customer perspective, and the customer perspective is the driver of financial perspective which consist of the organisational ultimate performance outcomes. In every single perspective key performance indicators are developed.
to provide measures for each performance perspectives that tell the results of actions already taken under each category. The non financial or operational measures i.e.: customer satisfaction, internal process, and the organizations innovation and improvement activities are also known as the drivers of future financial performance. With this development, balance focus between objective elements (lag indicators) and cascade elements (lead indicators) of performance measurement is strongly encouraged. Furthermore to strengthen the relationship to achieve high performance, the incentive based on performance improvement should be granted (Shields 2007).

On the third generation of the Balanced scorecard, its role as the organisational performance management system is strengthened by providing a better basis for leaders to managing change and executing strategy (Rohm nd, Kaplan and Norton 1996). In the hand of leaders, Balanced Scorecard is a set of measures that gives them a fast and comprehensive view of strategic business performance (Kaplan and Norton, 2001,2004). The role of leadership is emphasized in the third generation of the BSC by scrutinizing the four principles as follows: leading and managing the BSC in practice through mobilizing change by empowering executive leadership, translating strategy into actions, motivating employees to make strategy as their daily job, and governing strategy as a continual process (Hoque, 2012, Kaplan and Norton, 2004). In addition, Kaplan (2005) promoted the BSC as the contemporary manifestation of the 7-S McKinsey model in which the BSC can serve as practical and effective tool for aligning all the organisational variables and processes that lead to successful strategy execution. On the third generation of the BSC, Kaplan included Leadership as part of the organisational capital under learning and growth perspective (Kaplan, 2005).

**Figure 2.1.** Strategy Map Template.

On the fourth generation of the BSC, Kaplan and Norton (2006) recognize that corporate performance outcomes are not merely a sum of individual function, but a combination working together. The different type of the BSC so called the Enterprise Scorecard then is developed by promoting four new perspectives: financial synergies, customer synergies, internal process synergies, and learning and growth synergies (Hoque 2012, Kaplan and Norton, 2010). The corporate synergies concept on the BSC highlights the importance of linking or measuring performance as an impact of across functional units within the organisation.
On the fifth generation of the BSC, Kaplan and Norton (2008) emphasized the alignment between scorecard measures to the organisational strategy map (Hoque, 2012). The clearer the link between performance measurements and the strategy map the better organisation develop the organisational performance management system. And the success of the BSC depends on whether the organisation successfully identifies clear and objective non financial and financial performance measurements and whether those measurements can be linked with rewards and penalties for improving performance (Hoque, 2012, Kaplan and Norton, 2008).

On the sixth generation of the BSC, Kaplan and Norton 2010) elaborated the latest development by promoting six-stage closed-loop performance management system for better alignment between strategic planning with the strategy execution (Hoque 2012, Kaplan and Norton 2010). The six-stage closed-loop performance management system according to Kaplan and Norton are: develop the strategy, translate the strategy, align the strategy, plan operations, monitor and learn, and test and adapt the strategy (Hoque 2012, Kaplan and Norton 2012).

Those six generations of the BSC exposed various improvements along the process of developing and designing balanced performance measures and executing better performance systems to improve and sustain organisational performance outcomes. However, some cautions have been raised by some scholars based on their study on BSC implementation in several organisations. For instance, for some practitioners the BSC development might otherwise indicated a confusion that there is no single or uniform the BSC exist, so it is suggested that the BSC development should at least focus on enabling top management to measure internal and external related activities of an organisation for the short term and the long term perspectives (Johanson et al. 2006). In addition, Graham (2010) also reminded that performance measurement is central in an organisation, but managing performance cannot be done properly if the organisation implemented a flawed BSC model. BSC approach can be a flawed model when failed to develop a proper KPIs and focused scorecard (Graham, 2010).

2.2. The BSC in the Public Sector Leadership Accountability Framework

On the first hand, the third generation of the BSC placed leadership under the perspective of the learning and growth, it is defined as one of key factor in the process of creating long-term
organisational value (Kaplan & Norton 2004). Several studies on the implementation of the BSC in public sector also found that the BSC can serve as leadership tool to improve organisational performance outcome (Hoque 2012, Umashev & Willet 2008). In addition, by providing balanced perspective in managing strategy and organisational key performance indicators, the BSC can serve as a strategic performance management system in improving and sustaining public service delivery (Hoque and Adams 2011, Kaplan 2005).

On the other hand, study about leadership and its association with performance is developing and the link between leadership and organisational performance need to be enhanced (Jing and Avery 2000). In order to provide criteria for designing research questions and analysis for the study on the implementation of the BSC in the Indonesian Ministry of Finance, a leadership accountability framework for public sector performance outcome is developed based on the synthesis on the BSC literature and the strategic leadership theory (Table 2.1 and Appendix A). The proposed framework identifies key elements that should be explored to support the analysis on what factors contributed to the success implementation of the BSC to improve and sustain the public sector performance outcome (Jing & Avery 2008; Bouckaert & Halligan 2008; Shields 2007; Sutiyono 2007; Kaplan & Norton 1996; 2004a; see Table 2.1).

The key factor supporting the development of the BSC as one of the best leadership frameworks available for the private and public sector is that the BSC promotes an adoption of holistic and comprehensive approach for strategic planning, performance measurement and evaluation (Graetz, 2006, Kaplan & Norton, 2004). In addition with the current development of strategy map, the strength of the BSC approach lies in its balanced focus on internal-external and financial-non financial perspectives, in its strategic design; its simplicity and its strategic vision alignment with the operational measurements (Graetz 2006, Kaplan 1996, 2001, 2004).

However, there are still only a limited number of studies that un-wrap the role of leadership in implementing change in the public sector accountability for performance outcome, and what determines effective leadership in the public sector (Van Wart 2003). Debate still exists on what specific leadership style or paradigms which are superior in the process of achieving sustainable performance excellence in the public sector (Jing and Avery 2008, Van Wart 2003).

Even though discussion on which leadership style is the most effective is still developing, ultimately, the strategic leadership paradigm (Draft & Pirola-Merlo 2009; Ireland & Hitt 2005) promotes effective leadership practices for sustainable good results in the 21st century. The strategic leadership concept has also improved the previous literature discussion about leadership theories that tend to focus merely on the individual leadership perspectives (Bolden et al, 2003). The more holistic approach offered by the strategic leadership theory is needed to promote a better framework that links stakeholders’ perspectives in achieving sustainable performance in the organisation. It will also provide better perspectives and prevent organisational bias towards leadership capacity-building that may not be in line with the process of achieving improved organisational outcomes.

In line with the strategic leadership concept (Ireland & Hitt 2005) and based on a synthesis analysis on the four major roles of the strategic leaders in an organisation (Table 2.1), there are four major elements that should be explored to support the analysis of the leadership role in sustaining public sector performance, as follows: leadership effectiveness, the Strategic Management and HRM “fit”, the balanced performance management system, and the performance governance.
Table 2.1. Synthesizing the Conceptual Framework Based on The BSC and Strategic Leadership Theory

<table>
<thead>
<tr>
<th>No.</th>
<th>Strategic Leadership Characteristic</th>
<th>The BSC &amp; Leadership Roles in an Organisation</th>
<th>Elements of The Conceptual Framework</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>Personal Mastery</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a</td>
<td>Personal Qualities</td>
<td>Combination of both visionary and managerial type leader</td>
<td></td>
</tr>
<tr>
<td>b</td>
<td>Orientation</td>
<td>Marshalling long-term and short term viability of the organisation</td>
<td>Determine the Organisation’s Vision</td>
</tr>
<tr>
<td>c</td>
<td>Leadership style</td>
<td>Make vision work with alignment of strategy throughout organisation</td>
<td>Leadership Effectiveness</td>
</tr>
<tr>
<td>2</td>
<td>Organisational Mastery</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a</td>
<td>Process and Structure</td>
<td>In the paradox of leading and managing: nurturing mix of managers leaders and strategic leaders</td>
<td>Develop Human Capital and Organisational Culture.</td>
</tr>
<tr>
<td>b</td>
<td>Agility</td>
<td>Flexible, adaptive to the shocking change and challenges</td>
<td>Strategy &amp; HRM Fit</td>
</tr>
<tr>
<td>c</td>
<td>Followership: succession</td>
<td>Embraces leadership succession</td>
<td></td>
</tr>
<tr>
<td>d</td>
<td>Followership: staff's empowerment</td>
<td>Need professional and knowledge workers in dynamic, chaotic situations</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Performance Mastery</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a</td>
<td>Performance (Advantages)</td>
<td>Maintaining competitive advantage and sustaining performance excellence</td>
<td>Establish Balanced Organisational Controls</td>
</tr>
<tr>
<td>b</td>
<td>Innovation</td>
<td>Innovation is become part of the culture supported with continuous leadership capacity building</td>
<td>Performance Management System</td>
</tr>
<tr>
<td>4</td>
<td>Social Mastery</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a</td>
<td>Ethical &amp; Values Driven</td>
<td>Values and vision shared by all the members in the organisation</td>
<td>Promote Ethical Practices and Create Better Organisational Value Based Outcome</td>
</tr>
<tr>
<td>b</td>
<td>Promote governance</td>
<td>Promote strategic alliance with Stakeholders and community, environment</td>
<td>Performance Governance</td>
</tr>
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</table>

Firstly, finding an effective leader for every organisation at the right time is not always easy. A leader in the organisation is the one who is willing to take responsibility for leading any organisational change initiatives and achieving performance excellence (Michalska 2008). The first important role of the strategic leader is to determine clearly the organisation’s vision and develop strategic direction involving the whole component of organisation (Hamel & Prahalad, 1989; Ireland & Hitt, 2005). To promote leadership effectiveness in public sector, leaders with full set of characteristics on personal, organisational, performance and social mastery are needed to lead and fully engage in the process of achieving sustainable performance outcomes (Graetz, 2006; Ireland & Hitt 2005; Van Wart 2003; see Table 2.1 above).

Secondly, the concept of strategic management and HRM “fit” represents concern about how to align the business strategy with the human resources strategy/practices (Shields 2007). In a further study on the development of a basic model of “best fit” strategy alignment, Shields (2007) also strongly suggests that in developing the performance management system, organisations must involve the development of an appropriate remuneration system which will correlate systematically with the process of managing business strategy, the organisational structure, and the shaping of the organisational culture.

So, by including the strategic management and HRM “fit” as part of the element of the leadership accountability framework will support leaders in managing change, achieving mission priorities (Oakland & Tanner 2008). In addition, as a result of persistent attention by leadership to making strategic planning an integral part of the strategic management process, the effective strategic planning processes will contribute to the process of achieving organisational performance outcomes in terms of public value (Oakland & Tanner 2008). Kamarck (2007) noted that the government preference to focus more on process rather than a high degree of control triggered the reform of its traditional accountability and performance management framework. This will also increase the capacity to integrate sound emergent strategy into the organisation’s more deliberative strategy making process (Oakland & Tanner 2008). Moreover, in line with the reinvigoration of the strategic leadership concept can be considered as the key success factor for any change initiatives especially on developing human capital and reshaping current organisational culture to “fit” with the organisational strategy (Ireland & Hitt, 2005; Shields, 2007).

Furthermore, Bryson (2003) demonstrated comprehensively that the use of performance management tools and techniques as a product of a sound PMS under the perspective of strategic planning and management theory will directly support organisational effectiveness by increasing the system thinking. In addition, it will indirectly support the organisational effectiveness by promoting the alignment of the strategic and operational concerns simultaneously.

As one of the best leadership tools for managing performance in both the private and the public sector (Kaplan & Norton, 2004; Estis 1998), BSC promotes the adoption of a holistic and comprehensive approach to strategic planning, performance measurement and evaluation (Graetz 2006). The strength of the BSC approach lies in its balanced focus on internal-external and financial-non financial perspectives, in its strategic design; its simplicity and the alignment of its strategic vision with operational measurements (Graetz 2006; Kaplan 1996; 2001; 2004a).

BSC, as a successful performance management system also provides a basis for leaders to better manage change or execute strategy (Sitawati 2009; Rohm nd; Martello et al. 2008). In the Indonesian context, bringing the best western-type strategic performance management framework to the Indonesian public sector suggests some caution in terms of the national/organisational culture, leadership styles and HRM practices (Rhodes et al. 2008).

For instance, the Indonesian leadership focus on the longer horizon for public sector strategic planning is still in question (Crawford & Hernawan 2002; Crawford 2003). In addition, with regards to
Implementing The BSC ... (Adi Budiarso)

the individual performance culture, based on the study of the existing public sector performance evaluation based on the current individual work performance indicators, nonetheless the current focus is not on promoting individual performance but rather on measuring personal loyalty (Sutiyono 2007).

According to McLeod (2006), there are currently three major areas that need to be reformed in HRM in Indonesia; firstly, the mechanistic and rigid organisational structure; secondly, the mismatch of professional skills and qualifications to the tasks; and thirdly, the weak incentives for good performance and a lack of competition for best leader candidates from outside. In terms of leadership practices, McLeod (2006) concluded that the current leadership promotion system promotes no incentive for good performance. There is no competition either from inside (below) or from outside to be able to attract the most competent figure for managerial positions in the Indonesian public sector. Moreover, to the extent that there is no competition for positions, there are also no transparent or participative rules of the game for leadership succession, such that it triggers unethical practices such as seeking promotion not by demonstrating professional competence or superior performance but by approaching superiors or by bribing officials who have authority with regards to leadership appointments (McLeod 2006).

At the local level, Turner, Imbaruddin and Sutiyono (2009) reveal major fundamental problems in the Indonesian public sector in terms of a very complex reward system and the highly bureaucratic personnel policy held by central agencies as well as very low remuneration, especially for senior officials. In terms of individual performance appraisal, Turner et al. (2009) also argued that local government and most of the ministries lack a disciplined formal process for individual performance evaluation.

Thirdly, a solid public sector performance management/measurement system should be developed to integrate performance information in coherence with the organisational strategy (Kaplan & Norton, 1996; 2001; Niven, 2003; Bouchaert & Halligan, 2008). It is the leadership role in the public sector reform under the New Public Management paradigm that places a strong emphasis on how to lead and manage public sector performance based on the result/outcome by establishing balanced organisational controls to promote excellence on performance (Hood, 1995; Ireland & Hitt, 2005; Rose & Lawton, 1999).

With regard to the potential use of the BSC approach in the public organisation, more attention needs to be paid to the current dynamic of the BSC. As an approach that previously only served leaders in an organisation as a performance measurement system (Kaplan & Norton, 1996) and then as strategic performance management system tool (Kaplan & Norton 2001), currently the BSC approach seems capable to serve as the organisation's total strategy management tool (Kaplan & Norton 2004). With a focused and persistent leadership to maintain and improve the performance outcome achieved, the BSC approach can lead public sector institutions to a sustained culture of quality and improve organisational performance (Mathys and Thompson 2006). For example, based on their recent study from the implementation of the BSC approach in two public services in the US (Postal Service and the Defense Finance and Accounting Service), dramatic improvements were observed in the performances of both organisations as a result of the process that successfully transform led to a fact-based performance improvement culture (Mathys and Thompson 2006).

Another study on the implementation of the BSC in the Australian government department, Centrelink, found that the journey to introduce the new system internally consumed more than four years from the initiation until the introduction of the online BSC in 2003. The prominent notion here is that individual performance agreements should be linked to the business planning. In addition, ongoing feedback and coaching at the individual level should take place to make sure the alignment of individual key performance indicators are updated to reflect role changes and stay focused on the
organisation strategy. In addition, more care needs to be put into motivating employees, assessment and capacity-building and recognition to encourage organisational performance excellence (Centrelink, 2009; Halligan, 2008). A further case study in the Queensland Government on managing priorities based on the BSC approach, the Department of Primary Industries (2000) revealed that the change initiative has apparently increased pressure on agencies to see more holistic and broader stakeholder concerns in exercising approaches to managing its portfolio.

Furthermore, access to the leadership decision making process in the implementation of effective PMS in the public sector seems to be difficult. For instance, a recent case study of the implementation of the BSC in a multi-objectives-large government institution, which was conducted based on the perceptions of the senior level officials, has found that several factors challenge the effectiveness of the implementation of the BSC. Those factors are cascading problems which are largely due to problems in the cascading of the performance indicators, and an inflexible top-down approach to the implementation process. The study also identified communication problems in the midst of leadership change during the implementation of the BSC (Umashev & Willett 2008). Moreover, the study also revealed that leadership may face problems in the process of aligning the performance measurement system, providing proper training, empowering employees and in providing incentive programs, and maintaining good communication to support the implementation process in the organisation (Umashev & Willett 2008).

For instance, the implementation of such performance management system in the public sector, especially in Indonesia, faced great challenges in regard to leadership engagement and the commitment to cascading the organisational performance up into the individual level, particularly due to the bureaucratic leadership style and non performance based organisational culture (Rhodes et al. 2008; Sutiyono 2007; Turner et al. 2009). Moreover, several BSC projects in particular organisations in Indonesia have been regarded as ineffective due to the failure of leaders to use the BSC as a tool for continuous improvement and change management (Tjahjadi 2007).

Fourthly, the performance governance concept promotes the public sector organisation’s responsiveness to the current global issues and the dynamics of stakeholder interests. It also promotes a comprehensive and collaborative approach to the decision making process to sustain public sector performance. This ultimately leads to the enhancement of the existing performance governance system by incorporating systematically all organisation internal and external stakeholders (Bouckaert & Halligan 2008).

It should be noted that in the era of governance, NPM is limited in several ways in providing better outcomes in terms of public value (Evans 2009; Stoker 2006). For example NPM has too much focus on the customer and the market rather than on the citizen. Moreover, NPM still promotes the dominance of the public servant role, and gives less consideration to the influence of politics and deliberative public policy making (Evans 2009).

So, the new concept of creating public value then emerged and was promoted for the next public sector reform agenda by reforming governance norms, values and operational rules themes in the new millennium (Evans 2009; Stoker 2006). Governance studies in the 21st century emphasize leadership accountability and performance as the two main principles of governance (Graham et al. 2003). Leadership accountability deals with how decision making by leaders in government, the private sector and civil society is made accountable and transparent to the public and its stakeholders (Graham 2003; UNDP 1999; UNESCAP 1997). Performance principle aims to promote the responsiveness, effectiveness and efficiency of institutions in making best use of resources to produce results and serve all stakeholders (Graham 2003; UNDP 1999; UNESCAP 1997).
To improve governance, public sector leaders should also improve public service capacity for efficiency in government spending, and promote shared understanding of value for money principle of public services (Chou 2008, CIPFA 2011). Overall, the obstacles to the effective application of good governance in some countries (China, Japan, and some European countries) have been identified. The obstacles include political problems (leadership resistance or lack of political will), resource constraints and complexity problems (Evans 2009; Chou 2008; Yamamoto 2008; Ding 2005). Therefore to achieve reform in a country where the administration is not protected from political influence, leaders should aim for more structural reform in the government to improve public service capacity, efficiency and considering service standards and outcomes expected by the community (Chou 2008, CIPFA 2011).

A governance system can be understood as “a process whereby societies or organizations make their important decisions, determine whom they involve in the process and how they render account” (Graham et al. 2003). The governance system requires leadership accountability and performance as two of the five principles of good governance in the 21st century (Graham et al. 2003). This philosophy also promotes so-called ‘performance leadership’ in the public sector; encourages strong emphasis on a customer-focus strategy; adopts private sector performance management tools in the public sector; designs better budgeting, and promotes clear individual and departmental/organisational accountability (Behn 2006). Additionally, there is growing evidence that, with regard to public financial management within the UK and Australia, the public sector is now linked to the achievement of externally imposed performance targets (Propper and Wilson, 2003; Halligan 2008).

If leaders are able to maintain governance principles and stay focused on their stakeholders, it is likely that the organisation will be able to meet their expectations and achieve sustainable results (Bossert, 1997). Performance principles in a good governance context promote institutional responsiveness to the need to focus on the process to serve all stakeholders effectively and efficiently in producing results that meet the needs while making the best use of resources (Graham et al 2003).

The concept of governance in the public sector can also be associated with accountability and the responsibility for achieving better public value (Crawford & Helm 2009; Evans 2009). Embedding governance principles in performance management can also improve how organisations are directed and controlled and pays particular attention to organisational structure, management and policies (Evans 2009; Yamamoto 2008). It triggers the need to consider the enhancement of the existing leadership accountability model by engaging the process of inviting stakeholders to participate and contribute to finding the best possible answer to difficult questions.

Based on the study literature on the leadership-performance relationship, little research has been conducted to uncover the leadership-performance relationship in the process of achieving sustainable performance excellence in the public sector. Some researchers reveals some insights in the more developed countries (Umashev & Willet 2008, Halligan 2008, Mathys and Thompson 2006), but not many done under developing countries context including Indonesia. A research gap exists in current study on the relationship between the whole leadership characteristic: personal, organisational performance and social mastery with organisational performance outcomes (Table 2.1). So, this study is relevant to fill the existing gap on the current literature on leadership-performance relationship, and particularly because of the limited empirical studies on the BSC implementation in Indonesian public sector.

Finally, in line with the current study literatures, by synthesizing those four key elements into leadership-performance relationship as discussed above, the conceptual framework for analysis so-called a model of “The Leadership Accountability Framework in Sustaining Public Sector Performance Governance” can be developed (Figure 2.3). The model is centrally derived from the literature that
maintains that leadership is a determinant of organisational outcomes. Nevertheless, there is still only a limited amount of research that uncovers specific leadership concept that fits with this framework in practice, or ways of supporting leaders in sustaining performance outcomes in terms of sustainable public value (Evans 2009; Halligan 2008; Jing & Avery 2008; Nutt & Backoff 1993). Therefore through an in-depth case study methodology in the IMOF, the analysis can be done to explore the role of leadership in sustaining public sector performance outcomes.

Figure 2.3. The Leadership Accountability – a Conceptual Framework for Improving Performance Outcome.

Figure 2.4. The Leadership Accountability Framework (refined).
III. METHODOLOGY

The study of the IMOF reform is treated as an exploratory explanatory study on the single case of the IMOF bureaucracy reform agenda (Gerring 2007, Yin 2003). The scope of the reform in the Ministry of Finance covers 12 large and multi-objective portfolios-comparable to more than two ministerial portfolios in Australia (i.e. the Treasury and the Department of Finance and Deregulation) and comprises more than 62,000 employees in the bureaucracy. The single qualitative case study methodology is therefore ideally suited to the research project proposed.

The selection of the IMOF as the case for study was based on its readiness in terms of the bureaucratic reform process; its complexity in representing a wide range of public service institutions; and the remarkable commitment and engagement of the top leadership its commitment to implementing the BSC in all units under the Ministry. In addition, due to the tacit nature of much leadership knowledge in the IMOF, it is best studied through qualitative research means.

The term ‘research method’ is a particular way or technique for approaching a research question. A range of methods was used under qualitative methodology, such as participant observation, in-depth interviews, focus groups and collection of organisational records, participants’ diaries and all possible data and collection of images (Carter et al. 2007; Blackman et al. 2005).

This study involves explanatory analysis based on semi-structured interviews with the Finance Minister, all Echelon Is and key staff (KPI managers) in the strategy management office across 12 units under the IMOF portfolios. The study also involves descriptive analysis, utilising three main methods of document analysis of the leadership role in the implementation of the BSC, observation during the process of implementation of the BSC in the Ministry and documents/data during 2006 - 2009. This engagement aims to gather comprehensive perspective in regards to the whole process of leading and managing performance and bureaucratic reform in the ministry.

This study will not rely on the use of statistics as criteria for interpreting the study's findings. Instead, a different strategy will be developed i.e. by identifying and addressing rival explanations for the findings. The challenge is to specify important rivals as part of the case study's research design work (Yin 2003). The implementation of the BSC was part of the reform agenda in the IMOF as an attempt by the IMOF leadership to initiate successful organisational change. Thus, the rival theory of this proposition will also be explored by revealing structural policy challenges or systemic problems faced by leaders, as there may become potential failures in realising organisational change/reform under the IMOF bureaucratic reform agenda.

IV. ANALYSIS AND DISCUSSION

The bureaucratic reform program in the IMOF officially has been initiated based on the Minister of Finance Decision No. 30/KMK.01/2007 about IMOF Bureaucratic Reform. It has also become the starting point of the implementation of IMOF performance management based on the balanced scorecard (BSC) to improve performance, public service delivery and good governance. The BSC development process in the IMOF can be described first of all by the leadership process in revisiting and redefining IMOF vision, mission and strategy. Secondly, the ministry entered into the process of translating strategy into objectives and activities in terms of key performance indicators, target and trajectories as a base for allocating resources, budget and monitoring the result/performance outcome.

The BSC is used as a leadership tool to better translate IMOF vision and mission into strategic objectives and presented in a strategy maps. Strategic objectives are the main ingredients of the IMOF strategy maps, which based on it then the measurement and target were created. Furthermore, activities are then initiated to achieve the targets. Finally, the allocation of resources can be made to
perform activities and achieve the targeted output/outcomes. All trajectories and result in the implementation stages will be reported and monitored for a feedback towards strategies that had been developed. IMOF-wide strategy maps were cascaded down to all levels in every unit under the IMOF. A set of the IMOF strategy at the top level is labelled as the IMOF-Wide strategy map and at the level Echelon I, it is called an IMOF-One strategy map and at the level Echelon II, it is called an IMOF-Two strategy map respectively.

The implementation of the BSC in IMOF can also be regarded as an expose on how leadership in coping with volatility in global finances during 2007-2009, and at the same time the ministry had to manage the complexity of the public sector reform agenda. Three out of the four pilots for the Indonesian bureaucratic reform program implements the BSC as a leaders' initiative to install the new strategic performance management tool in public sector. With 12 Echelons I (portfolios under the minister) including major directorates for tax, treasury, budget and customs, IMOF is leading the implementation of the reform in terms of leadership commitment and support. The implementation of the BSC in the public sector, especially in Indonesia, faced great challenges in terms of leadership engagement and commitment, particularly with regards to the leadership style and bureaucratic culture at the national and organizational levels. However, the implementation of the BSC in the IMOF during 2006-2009 has shown some promising results.

To provide an analysis of the issues based on the leadership perspectives on the achievements of sustainable performance outcomes in the midst of the structural policy challenges during 2006-2009, the proposed leadership accountability framework, as a result of the literature review, is used as a conceptual framework for the analysis on how does the leadership role and performance management system based on the BSC influence the public sector performance. To some extent, the Indonesian bureaucratic reform objectives to improve government delivery services, performance and sustain governance have been achieved through three effective leadership strategies in developing office modernisation, business process improvement, and improvement in the human resource apparatus management. The BSC system has been contribute in providing balanced perspectives in planning and evaluating organisation performance. However, in coping with the continuous effort to eliminate decades of deeply-rooted culture of corruption, the existing performance management system needed to be upgraded to the higher stage by developing the performance governance system in the ministry. Overall, the following analysis expose the business type of leadership framework derived from the extensive used of the BSC approach assisting the leaders in promoting change and innovation in IMOF strategic performance planning and evaluation in the midst of the Indonesian bureaucratic culture.

4.1. Leadership Effectiveness: Clear Vision vs Rule Based Bureaucracy

What can be learned from the leadership-performance management in the IMOF reform agenda is basically the effusion of an innovative leader in promoting leadership effectiveness by clearly defining the direction for the organisation to achieve its objectives in the long term and short term period and in imposing an innovative strategic performance governance system based on the BSC approach. In terms of achieving the targeted result, based on the findings, during the 2007-2009 there is a clear result in reforming IMOF business process by eradicating systemic corruption in practice especially in the DG Tax and DG customs (the biggest directorate generals in the IMOF).

Reform in the IMOF has been proven by the significant role of change enactors in forms of leadership effectiveness initiated by the era of three high calibre ministers: Dr. Boediono (2000-2004), Dr. Sri Mulyani Indrawati (2005-2010), and Mr. Agus DW Martowardojo (2010-current) and all the committed Echelons in the ministry. An interview with several Echelon I leaders in the IMOF revealed that:
Under the former minister Dr. Boediono, IMOF leadership clearly initiated the modernisation of the Indonesian tax office in 2002 and designed the reform on the public financial management in 2003/2004 by the enactment of the law on the state public finance; the law on audit of the state public finance; and the law on state treasury management.

The comparative analysis shown on the Table 4.1 clearly reflects an evolution of three types of leadership styles needed in the several phases of the reform process initiated by leaders in the IMOF. Arguably, the change in the IMOF leadership perceived by respondents as also the process of change needed in the leadership styles from the managerial type, changing to the transformational style, and currently moving towards the strategic leadership style in the ministry.

### Table 4.1. Analysis of the MOF Leadership Qualities

<table>
<thead>
<tr>
<th>No.</th>
<th>Dimension</th>
<th>Managerial Leadership</th>
<th>Visionary (Transformational) Leadership</th>
<th>Strategic Leadership</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>Personal Mastery</td>
<td>Relates people according to roles and decision making process</td>
<td>Proactive, creative, innovative and idea generators; influence the thinking process of the organisation and its people</td>
<td>Make vision work with alignment of strategy throughout organisation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>With too much focus on formal roles and structure, the leader can be too mechanistic</td>
<td>With innovative mind leaders should be aware of influence that may beyond his/her territory</td>
<td></td>
</tr>
<tr>
<td>b.</td>
<td>Organisational (process) Mastery</td>
<td>Rule bound, processed based structure</td>
<td>Not constrained by the present structure, systems or process or people</td>
<td>In the paradox of leading and managing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The managerial leader tend to be too bureaucratic</td>
<td>The visionary leader is willing to take risk and breach formal legacy for better purpose</td>
<td></td>
</tr>
<tr>
<td>c.</td>
<td>Performance Mastery</td>
<td>Excellence on managing an organisation</td>
<td>Well equipped to propel supernormal growth;</td>
<td>Sustaining performance excellence</td>
</tr>
</tbody>
</table>
Too much reliance in managing process can make leaders less focus on outcomes. Transformational leaders might form an exhaustive bureaucracy to achieve superior performances outcomes. More focus on developing performance culture.

d. Stakeholder Relations

<table>
<thead>
<tr>
<th></th>
<th>Hierarchical relationship with stakeholder</th>
<th>Adequate focus on stakeholders perspectives</th>
<th>Promote strategic alliance with Stakeholders and community, environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managerial leaders focus on building strong internal relationship</td>
<td>Sometimes visionary leaders can be too much inclusive</td>
<td>Sharing same values and vision by all the members in the organisation and with all stakeholders</td>
<td></td>
</tr>
</tbody>
</table>

Source: Analysis of the leadership IMOF during the reform process

The analysis is based on the qualities of the leaders to cope with leadership and management issues in four general qualities: personal mastery (personal qualities, orientation and style), organisational mastery (process and structure, agility and followership), and performance mastery (performance and innovation), and social mastery (ethics and value driven and governance). The strategic leader shows both visionary (transformational) and managerial (transactional) types of leader’s personality. They inspire people with big dreams and a vision for the future and exhibit managerial capability. They marshal the long-term and the short term viability of the organisation and capable of aligning the vision with nurturing organisational competencies. Strategic leader qualities are superior compare to other leadership paradigms in exemplifying organisational mastery qualities. Strategic leaders are not constrained by the current structure, systems or process and people, and are capable of initiating breakthrough in the rule-bound or processed-based structure, agile and adaptive to the shocking changes and challenges, and well-equipped to achieve performance excellence. Strategic leaders are also capable of initiating and facilitating innovation and producing superior growth. In terms of followership, strategic leaders are superior in nurturing leadership qualities among all the members of the organisation, and in making sure that shared vision and values drive professional actions and shared commitments to realise the vision in dynamic or even chaotic situations. From the interview, regarding the first phase of reform, one Echelon I leader who involved in the Indonesian tax administration reform summarized that:

*During 2002-2004, the ministry elegantly led and managed the process of changing of the law of Indonesian public financial management, treasury and audit in public financial management: the minister strongly directed the reform, the Director General gave the green light and the selected and committed Echelon II and III at the lower level introduced massive change in modernising...*
taxation administration and services based on the pilot project, nurtured it and run the large tax offices.

According to the former Indonesian Minister of Finance, Dr. Sri Mulyani Indrawati (2008), who led the bureaucratic reform process (the second phase of reform), the expectation is that the bureaucratic reform process in the IMOF will ultimately provide a range of benefits that go beyond just having more satisfied and better rewarded staff. The IMOF should reduce the level of corruption in government, provide better services for stakeholders, decentralise the authority, make the organisation more transparent and accountable, and result in more efficient, effective and productive government (Indrawati, 2008).

In terms of leadership vision and support, most Key Performance Indicators (KPI) managers in the IMOF considered the leadership roles in improving performance to be quite strong. One of the KPI Managers in the IMOF commented: In the midst of the Indonesian paternalistic culture, the IMOF leadership role is a highly significant (more than 70%) factor in improving organisational performance. In the early stages of implementing the BSC, a top down approach is imposed to enable performance to be measured quantitatively. In the past, it was difficult to measure performance outcomes, but now all units under the Ministry have defined the unit’s key performance indicators and measured its target achievements quarterly and reported to the Minister’s board meeting.

Early in her appointment as the Minister, knowing that there were embedded cultural issues in terms of the IMOF leadership bureaucracy; Dr. Sri Mulyani Indrawati committed to become the champion of the BSC implementation and developed the Minister’s strategic leadership and delivery unit, Pushaka (Pusat Analisis and Harmonisasi Kebijakan) in November 2006. One deputy director of Pushaka commented: Pushaka enhanced and promoted better governance in managing the Minister’s meeting and the private office’s functions, and developed the Minister’s delivery unit and strategy management office. As part of its main tasks, Pushaka provided leadership support in delivering major changes in strategic planning and aligning leadership practices in terms of speeding up leadership communication and coordination, better monthly board meeting management to promote a cohesive and participative decision-making process in the Ministry top level meetings. It also involves the use of advanced information technology to monitor the implementation of the Minister’s decisions and support responsive accountability and communication with stakeholders.

The IMOF reform agenda is quite clear. Two of the prominent agenda items, reforming the national budgeting process and IMOF bureaucratic reform have been initiated. In the battle to reform existing Indonesian budget processes, the minister remains vigilant in regard to fiscal resilience and sustainability. However, the rule-based bureaucracy and hierarchy seem to be a real handicap for leaders in developing or adjusting necessary roles in the bureaucracy. Practically, the leadership succession laws and regulations are too rigid and fail to provide enough power for the leaders in an agency or department to hire competent managers/staff or fire incompetent managers/staff if necessary for their own organisation. One Echelon I in the IMOF indicated: We currently have difficulties in getting rid of employees or middle level managers with very low performance and very low standards in terms of behavior; for example, We don’t have a final solution how to get rid of many incompetent employees that has been identified by the reform agenda.
Another director general (Echelon I) in the IMOF who was interviewed commented:

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

4.2. Strategic HRM “fit”: Performance Strategy vs Loyalty/Control Strategy

In terms of leadership role in the human resource management, Indonesian bureaucracy still inherited and widely practice loyalty based/control strategy rather than performance based strategy. For instance, the strategic management and HRM practices in the Indonesian public sector, the leadership focus for the longer performance horizon for the public sector strategic planning is still in question (G. Crawford, 2003; G. Crawford & Hermawan, 2002). However, the top-down approach of the implementation of the BSC in the IMOF introduced the reform in terms of performance based strategy in practices. This is an innovative agenda in terms of strategic management and HRM practices in the IMOF. In fact, as a performance leadership tool, the BSC promotes better strategy for improving public service and performance. Regarding the importance of leadership influence in the strategic management, one prominent director general maintained that “If you fail to plan then you plan to fail". In addition, most of the Key Performance Indicator Managers as prime movers of the BSC implementation at the middle level perceived that:

_The BSC offers a basis for leaders to better manage change or execute strategy in the IMOF. Not to mention that in the early stages of the implementation, with professional facilitators from reputable consultants, all Echelon I and the Minister had a series of meetings to design the Ministry strategy map as the first step in the development of a strategic performance management framework in the IMOF._

With regard to the national laws and regulations Indonesian Human Resource Management, the fact seems to confirm Mc Leod (2006) who observed that the current leadership promotion system promotes no incentive for good performance. In addition, in opposite direction to implement performance based culture, there is a multi-based remuneration policy. In the Indonesian public sector, the very complex reward system and the highly bureaucratic personnel policy held by cultural agencies are perceived as fundamental problems, as well as low remuneration especially for senior officials. According to an Echelon I interviewed in the IMOF:

_A multi based remuneration dilemma exists. Units may create other source of income in addition to their current salary budget. Moreover, it is common practice to get extra remuneration from allocating budget to provide honorarium for staff. In addition it is possible to appoint senior public sector officials as a state-owned company’ commissioner which according to the some people it may result in potential conflict of interest and increasing problematic issues in salary iniquity among Echelons in the IMOF._

And in terms of individual performance appraisal, local government and most ministries lack a formal discipline process for individual performance evaluation, and there is no reward based on performance in practice. The salary system then has weakened the motivation to perform well in the government’s offices and lowered the productivity of many competent civil servants (Turner et al., 2009).

One Echelon I interviewed commented:

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The current performance management system needs to be broken down to the personal level. Performance indicators should be cascaded down to the lowest level of the managerial structure or at the individual level. Currently, I don’t have an objective tool to make a decision based on individual performance.

In response to these strategic management and HRM issues, under the reform program, the IMOF has applied a pilot remuneration package, based on the 27 grades of all the positions in the ministry (as a result of professional job analysis done by consultant).

Basically, this improves the lowest salary of the positions in the Ministry by more than 100% (from IDR 760,500 to IDR 1,330,000) and improves the remuneration for the highest position in the Ministry by more than 5 times (from IDR 5,500,000 to IDR 46,950,000). This initiative has been approved by the Indonesian House Representative as a model for a remuneration package which will later be applied to all ministries in Indonesia under the bureaucratic reform program (IMOF, 2008a, 2008b).

In addition, the Ministry has also strengthened its HR management, developed an assessment centre, and encouraged competition to fill vacancies by advertising them internally rather than continuing to rely on promotion by seniority. In addition, it has improved communication and coordination within directorates/agencies under the Minister's portfolio. The Ministry has also initiated the appointment of a special “chief officer” in the structural position known as “Pit” (Pelaksana Tugas – acting leader). This was a breakthrough policy as prescribed in the old bureaucracy and by the endorsement of minister regulation number 117/PMK.01/2009 regarding the Appointment of Chief Officer in the Structural post in the Ministry of Finance. It is now possible to accelerate the appointment of young and competent officials to hold the leadership role in the IMOF bureaucracy based on their competencies and performance. Another important initiative was an attempt to match remuneration to skill requirements and responsibilities, and to align the pay structure more closely with that of in the private sector.

To make structural alignments with regard to the agenda of modernising its major offices, especially tax, customs and treasury offices throughout Indonesia, the IMOF leadership was successful in accelerating and improving the management of its business processes. The Ministry published clear improvement in more than 35 initiatives in 2007 and many more in 2008 on cutting the administration processes for delivering key public services. Examples include acceleration of the Tax File Number registration from 3 working days to 1 working day only; the tax appeals procedure from 12 months to 9 months; and refunds for custom duties from no specific time to a maximum in 30 days (Budiarso, 2010).

4.3. Performance Management System: the BSC vs IT & Competency Issues

Eventually, the BSC has served as the strategic performance management system for the IMOF. The implementation of reform in 2007, especially on the strategic performance management system in the IMOF based on the BSC, was enabled by introducing massive training and agency capacity building to define better strategic mission, vision and strategy objectives as mandated by the reform of state financial management law since 2003/2004.

At the end of 2007, the development and implementation of the BSC to promote sound strategic-bureaucratic performance management and governance was enforced by the appointment of several Key Performance Indicators (KPI) Managers to act as liaison officers in every Echelon I in the Ministry. It was their job to work together to run another reform initiative which took in place as part of the public financial management reform. Pushaka supports quarterly senior-level meeting that directly led by the minister to do high level observation and evaluation of the current performance and
achievement of the ministerial strategic outcomes.

In line with previous studies (Rhodes et al., 2008; Sutiyono, 2007; Turner et al., 2009; Umashov & Willett, 2008), The BSC implementation in the IMOF posed great challenges to the leadership engagement and commitment to cascading the BSC up into the individual level, especially with regards to leadership style and national/organisational culture. In fact, the recent development of the BSC implementation was evident from the signing of the key performance indicators contract with all 12 Echelon I for the first time in early 2008. The former Minister, Dr. Sri Mulyani Indrawati stated to the board meeting as follows:

*What the ministry has done so far basically was a milestone and achievement for such a big institution with 62,000 employees and several portfolios including treasury, taxation, budgeting and fiscal balance, customs, capital market oversight and state asset management.*

Another Echelon I in the IMOF confirmed that the current performance management system can be used to improve organisational performance, commenting:

*Apparenty, there is growing concern in the quarterly performance meetings of the minister and all Echelon I under the IMOF. People are getting serious about paying attention to missing the organisational performance target. Awareness of performance improvement is also increasing.*

However, the development of the organisational performance information management system and infrastructure in all 12 IMOF portfolios is not conclusive. An IT special expert of the Indonesian Minister of Finance who was interviewed noted:

*Several subsystems exist in the IMOF performance information system. Among those sub-systems are the treasury information system, the tax and customs information system, the budget information system and the BSC information system. Unfortunately these systems potentially create silos in the management of the IT infrastructure and policies in the Ministry. This has become top priority to be solved in the IMOF over the last 5 years.*

4.4. Performance Governance: Deliberative Leaders vs Silo Bureaucrats

In fact, the strategic leadership practice in the IMOF has become well known as a good example of driving reform in the Indonesian bureaucracy. This was apparent in the way the IMOF leadership committed to total concern for the promotion of governance and sound practices in the national bureaucracy. In terms of public financial management, Indonesian economic reform leads to its clear performance. Based on comparative study by the independent researcher in 2007, 2008, and 2009, the Ministry of Finance reform was gaining significant progress across the year based on customer satisfaction. This was counted on average per unit under the Ministry portfolio and throughout the major cities in Indonesia. Overall, this reflects levels of more than 74% in 2008 and more than 71% in 2009 in terms of public confidence and satisfaction with the bureaucratic reform outcomes. It seems that the pilot of Indonesian bureaucratic reform progress in the Ministry of Finance 2007-2009 is on the right track. Its preliminary successful bureaucracy reform apparently indicated by the cutting red tape, systems move towards accountability for achieving results, putting customers first, and empowering public service to get results.

In 2010, the newly appointed minister, Mr. Agus DW Martowardojo has endorsed further institutional reform and organisation culture transformation in the IMOF leading to more accountable and better deliberative performance governance practices in the bureaucracy. One among other agenda is the continuation process of cascading the organisational performance and into the individual level as it is targeted to be fully implemented in the next two years. During the interview he emphasized:

*Performance management in the IMOF is based on the holding type of accountability system.*
However the current performance achievement is still limited due to the centralistic decision making process. In practice, less coordination between directorate generals/units under the Minister is apparent. The holding type system in the IMOF probably is not the ideal for the Ministry performance management. To supervise this big organisation, there is a need to enhance the existing risk management, HRM, management of information and technology infrastructure. Introducing the concept of the entire IMOF for a better decision making process with respect to the stakeholders is still a big challenge for the IMOF.

Additional attempts to promote performance based rewards and the strengthening of HR management should be initiated in line with the effort to enhance internal control and risk management and integrated information technology to improve IMOF capability to focus on broaden stakeholders and sustain the Ministry’s performance governance outcomes. Moreover, reforming the less integrated leadership practices among agencies in the bureaucracy seems to become the continuing challenge for the Indonesian public sector. It seems that more strategic leaders are needed to sustain reform in the IMOF and all Indonesian government agencies. The Minister directly observed that:

There are apparent silo bureaucrats between Echelons under the IMOF and government formed a weak coordination among several government agencies within which the IMOF should take active coordinating roles as evidenced by the failure of the Public-Private-Partnership for infrastructure project in Indonesia.

In linking leadership effort with the corruption eradication in Indonesia, the ranking of corruption perception index that representing international perspective towards leadership effort of the country to eradicate corruption showed that Indonesia index of performance has been increasing from 2.3 in 2007 to 2.8 in 2010. The success particularly noted by the media as follows:

"Bold reform in the tax and custom administration and the ability of Corruption Eradication Commission to bring forward high profile cases have recently bolstered the perception that corruption is being addressed more aggressively..." (Transparency International 2008)

In summary, the refined leadership accountability framework (Figure 2.4) basically answers the research question on what factors contributed to the successful implementation of the BSC as a tool to improve and sustain public sector performance outcomes. This updated model is developed based on findings perceived by IMOF leaders that leadership is the key determinant for superior organisational performance outcome. Moreover, the relationship is strengthened by four main key enabler elements: leader’s clear vision & support, performance based strategy, balanced performance management system; and deliberative leadership practices. On the other hand there are four continuous challenges to sustaining organisational performance outcomes in terms of rule based bureaucracy and hierarchy; a loyalty/control based HRM, IT and competency issues in implementing the BSC; and silos bureaucrats in the midst of the deliberative leadership practices. To cope with those issues and to excel in delivering public services in the 21 century, more strategic leaders needed to be installed in the bureaucracy.

V. CONCLUSION AND POLICY RECOMMENDATION

5.1. Conclusion

Literature on leadership indicates much of offered theory focuses on effective leadership either
at individual or organizational level. Little stress is positioned on the whole system result, and less concern is put on both leader/manager and performance. The conceptual framework developed and discussed addresses this inadequacy, presenting an integrative perspective of leadership that focuses on leadership process on both people and performance.

To cope with the turbulent world in the 21st century, leaders in public sector organisations need to practice an effective leadership framework. It is important particularly in implementing balanced performance management system to lead organisation to achieve higher and sustainable performance outcomes. Findings from the case study on the implementation of the BSC in the holding type of public sector like IMOF confirm that the application of a sound leadership framework is increasingly relevant to frame the roles of leaders. To achieving better public sector performance, leaders need to keep maintaining focus on its roles that may support the process of improving performance and seek an innovative ways to minimize the challenges within those four key elements in the process to improve/sustain performance outcomes. It can also be concluded that with stronger personal, organisational, performance and social mastery, public sector leaders in the IMOF were more capable of leading and promoting viable strategic intentions to reform the bureaucracy and achieve superior performance in the midst of the unique Indonesian bureaucratic culture.

5.2. Policy Recommendation

This study is limited to the Indonesian Ministry of Finance only and generalising the results of this study to other units in the bureaucracy should be done cautiously. However, the findings confirm that reforming bureaucracy by committed leaders in the IMOF as a pilot for the bureaucracy reform agenda is possible to improve performance. Therefore, some recommendations can be proposed to advance the Indonesian bureaucracy reform agenda.

There were four factors that can be framed into four key processes that demand strong key leadership roles: firstly, maintaining leadership effectiveness by providing clear vision and leadership support; secondly, aligning strategy management and HRM 'fit' by embracing performance strategy and eliminating loyalty/control based strategy in HRM practices; thirdly, maintaining balanced performance management system and providing continuous support for capacity building and IT support for the employees; and finally, promoting more deliberative leadership practices by opening to the citizen or stakeholder’s participation in performance planning and evaluation. However, there were also four structural policy challenges faced by IMOF leadership in implementing the BSC to improve the organisational performance outcomes. Those were rule-based bureaucracy and hierarchy, loyalty/control strategy, IT and competencies issues, and silo mentality of bureaucrats.

The application of the Strategic Leadership framework is highly recommended for the IMOF as a pioneer unit for the agenda of reforming the central Indonesian bureaucracy at president/cabinet office in addition to the local level (provinces and kabupaten/walikotamadya) or other public sector institutions as well. It may provide a comprehensive approach for Indonesian leaders in leading and managing factors that may support or threaten the leadership capability to improve and sustain public sector performance outcomes.

Promoting the whole government leadership concept is a key to advance the roles of Indonesian public sector leaders at all level in the 21 Century. In order to succeed, there is a need to initiate better coordination and synergy in creating national strategy to achieve an intended outcome among central and local government offices under the President’s coordination directly.

The strategic leadership accountability framework can also be promoted as a new framework for Indonesian public sector leadership capacity building for multi Echelons in the bureaucracy. Alignment of agenda and strategies from multiple Echelons in the public sector is necessary for maintaining focus
towards the process of achieving national superior performance in terms of gaining better public value and sustainable performance outcomes.

REFERENCES


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### APPENDIX

#### Various Leadership Theories and Its Major Characteristics

<table>
<thead>
<tr>
<th>Leadership Theory</th>
<th>Major Time Frame &amp; Key References</th>
<th>Major Characteristics</th>
<th>Descriptions/Background</th>
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<tbody>
<tr>
<td>Great Man</td>
<td>Pre- 1900; continues to be popular in biographies (Bass &amp; Stogdill 1990, Bass 1999; Servant Leadership Theory: Van Wart 2003)</td>
<td>Personal &amp; Social Mastery: emphasis on emergence of a great figure who has substantial effect on society.</td>
<td>Era influenced by notions of rational social change by uniquely talented and insightful individuals: Napoleon, George Washington, Martin Luther</td>
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<tr>
<td>Trait</td>
<td>1900-1948; current resurgence of recognition of importance of natural talents (Bass &amp; Stogdill 1990); Autocratic-Democratic Theory (Tannebaum &amp; Schmidt 1958).</td>
<td>Personal &amp; Organisational Mastery: Emphasis on individual traits and skills that leaders bring to all leadership tasks at work.</td>
<td>Era influenced by scientific methodologies in general (especially industrial measurement) and scientific management in particular (for instance, the definition of roles and assignment of competencies to those roles).</td>
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<tr>
<td>Contingency</td>
<td>1948 - 1980s; continues as the basis of most rigorous models but with vastly expanded situational repertoire (Bass 1990, Vroom &amp; Jago 1988, Van Wart 2003; Leader-Member Exchange LMX Theory (Graen &amp; Uhl-Bien 1995, Elliott 2011)</td>
<td>Organisational &amp; Performance Mastery: Emphasis on the situational variables leaders must deal with, especially performance and follower variables</td>
<td>Era influenced by the rise of human relations theory, behavioral science (such as motivational theory), and the use of small group experimental designs in psychology</td>
</tr>
<tr>
<td>Transformati onal</td>
<td>1978 - present (Bass 1999, Graetz 2006, Jing &amp; Avery 2008)</td>
<td>Personal, Organisational &amp; Social Mastery: Emphasis on leaders who create change in deep structures, major processes, or overall culture. Leader mechanisms may be compelling vision, brilliant technical insight, and/or charismatic quality</td>
<td>Era Influenced by the loss of American dominance in business, finance and science and the need to re-energize various industries which had slipped into complacency.</td>
</tr>
<tr>
<td>Multifaceted</td>
<td>1990s- present (Bass 1990, Van Wart 2003, Behn 2006)</td>
<td>Personal, Organisational &amp; Performance Mastery: Emphasis on integrating the major schools, especially the transactional schools (trait and behaviour issues largely representing management interests) and transformational schools (visionary, entrepreneurial and charismatic).</td>
<td>Era affected by a highly competitive global economy and the need to provide a more sophisticated and holistic approach to leadership</td>
</tr>
<tr>
<td>Strategic</td>
<td>2005 - present (Ireland &amp; Hit 2005, Jing &amp; Avery 2005, Avolio 2007, Draft &amp; Pirola-Merlo 2009)</td>
<td>Personal, Organisational, Performance &amp; Social Mastery: Encouraging manager to have transformational leadership capability influence structures, major processes, and shape future organisational culture. Leader mechanisms may be combination of transformational and managerial quality.</td>
<td>The emergence of global issues like global financial crises, climate change and growing concern on international trading of financial and non financial resources will challenge national performance on democracy, economic growth and development sustainability.</td>
</tr>
</tbody>
</table>

Sources: Adapted from Van Wart 2003, Bass 1999, Bass & Stogdill, 1990