The Effect of Internal Factors on Performance Measurement in Indonesian Local Government

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Abstract: This study is motivated by the many problems found in performance measurement, especially in district/city governments in Indonesia. This study aims to examine the influence of internal factors, namely the participation of internal stakeholders, internal political support, and the organizational capacity of local government on performance measurement. The data for this study was gathered via a Google form, with 43 questionnaires addressed to the secretary and head of Serang City’s program, evaluation, and reporting subdivision. Purposive sampling was used in this investigation, which took a quantitative approach. Structural Equation Modeling (SEM) with Smart Partial Least Square version 3.0 was used as an analytical technique. The results of this study indicate that internal stakeholder participation and the organizational capacity of local government have no significant effect on performance measurement. Internal political support has a significant effect on performance measurement. Meanwhile, the results of this study have several implications for local governments, especially district/city governments, namely as an evaluation material related to performance measurement at the district/city government level as well as providing information for the State Civil Apparatus (ASN) involved in Government Agency Performance Accountability Reports (LAKIP) to always improve their skills in measuring performance and paying attention to the outcomes to be achieved.

Keywords: Performance measurement, institutional theory, internal stakeholder participation, internal political support, organizational capacity, LAKIP.

1. Introduction

The implementation of New Public Management (NPM) in Indonesia has consequences for bureaucratic reform. The orientation of bureaucratic reform encourages to create a government that is run by referring to results or result-oriented government. Not only that bureaucratic reform is also motivated by the desire to create a government order that is free from corruption. For this reason, several institutional instruments are needed to support the implementation of bureaucratic reform. The institutional instrument in question is the measurement of organizational performance. In Presidential Regulation No.29 of 2014 concerning the Performance Accountability System for Government Agencies, it is stated that in an effort to support good performance measurement, the central government as the regional supervisor has created a performance accountability system for government agencies (SAKIP). This refers to the mandate conveyed in Presidential Instruction No. 7 of 1999 concerning the obligation for all government officials to account for their main duties and functions. The idea came from an awareness of the larger government organizational structure, accompanied by increasingly complex public needs. In 2019, referring to Government Regulation No. 8/2006 concerning Financial Reporting and Performance of Government Agencies and Presidential Regulation No. 19/2014 regarding SAKIP, Kemenpan-RB (2019) has evaluated and provided assistance on SAKIP to 84 Ministries/Agencies, 34 provincial governments, and 514 district/city governments.

From the evaluation, it is known for regencies/cities as many as 57.28% or around 294 regencies/cities have received the predicate value of B or higher. The large number of regencies/cities that get scores below the minimum score (<60) is a special concern for the government. Of the 220 regencies/cities that still do not meet the specified minimum value (B), one of them is the Serang City Government. The reason is, from a total of 8 regencies/cities in Banten Province, only the city of Serang received a SAKIP score below the minimum score, namely B. Studies on performance measurement have been carried out by several researchers including Julnes and Holzer (2001) which states that stakeholder participation and organizational capacity are strong factors in the performance measurement system. In addition, political support will be able to help organizations to obtain external resources and administrative continuity, so that it will improve performance measurement (Abane & Brenya, 2021; Yang & Hsieh, 2007). Furthermore, there are still many problems in measuring performance. As stated by Kemenpan-RB (2019) which sees that there are still many ASN who have not been able to compile and make LAKIP, hence the study on performance measurement needs to be
carried out in Indonesian local governments involving internal stakeholder participation, internal political support, and organizational capacity of local government.

2. Literature Review and Hypothesis Development

Institutional Theory: Institutional theory is formed based on social and cultural values that surround an organization. Based on data reported from the Banten Provincial General Bureau, the evaluation results of SAKIP obtained by Serang City are the worst among other districts/city governments in Banten Province. DiMaggio and Powell (1983) suggest that organizations are shaped by the institutional environment that surrounds them. Therefore, an isomorphism is formed. Isomorphism or isomorphic is a situation where if an organization is in the same environment, then the organizational form will be the same as well. DiMaggio and Powell (1983), view that the isomorphic institutional form is divided into three parts. First, coercive isomorphic which shows that organizations adopt other organizations because of pressures from the state and other organizations. Second, mimetic isomorphic is the imitation of an organization by another organization. This can happen when an organization is faced with environmental uncertainty, the organization will tend to imitate. Third, normative isomorphic, which is a situation that arises because of professional demands (1983).

Performance Measurement: Organizations in the public sector focus on providing services to the community. The public sector was originally created because of the community's needs that must be met for goods and services. Public sector organizations have become the center of public attention, so performance measurement is very necessary to measure the level of success of public organizations in fulfilling their mission to provide public goods and services. Performance measurement can be measured in two ways, namely by adoption and implementation. Adoption relates to the acceptance of the concept of performance measurement and its policies. While implementation leads to the integration of operating activities into organizational performance (van Dooren, 2005). The essence of performance measurement carried out in the public sector is the implementation of the concept of value for money (VFM). The VFM concept itself has three components, namely economic, efficient, and effective (Halim & Kusufi, 2014). Where to be able to measure this, every government organization must know the level of input, output, and outcome. In responding to the evaluation of performance measurement that occurs in district/city governments, a performance indicator is needed.

Kloot (1999) reveals that performance measurement indicators are used to measure the level of targets achieved, community satisfaction, service performance, and differences between institutions. Robertson (2002) suggests that performance measurement is a way to be able to evaluate job increases that aim to achieve a set goal. To measure the success of performance measurement is not an easy thing (Halim & Kusufi, 2014). This is because the measurement of organizational performance is influenced by many factors. One of the factors that influence performance measurement is internal factors. Internal factors that may be related to performance measurement are internal stakeholder participation, internal political support, and organizational capacity. Julnes and Holzer (2001) say that resources have a strong impact on the adoption and implementation of utilization processes. This gives rise to the interpretation that the resource in question is one of the internal stakeholders. According to Epstein et al. (2005), GAO (2004), Ho and Coates (2004) say that internal stakeholders have a role in designing and implementing PMS, setting goals, indicators, and targets. Along with the times, the implementation of performance measurement in Indonesia.

 Requires a shift in terms of operations, structure, and personnel to corporate culture (Fernandez & Rainey, 2006; Putri et al., 2020). Changes that occur will affect the effectiveness of performance measures. Therefore, political support is needed that will help the institution or organization to gain external resources, autonomy, authority, stability, and administrative continuity (Meier, 2000; Riccucci, 1995; Wolf, 1993). As for creating a good performance, it is necessary to pay attention to organizational capacity to increase effectiveness, efficiency, and responsiveness in government performance. Milen (2006) states that organizational capacity is defined as the ability, skills, understanding, attitudes, values, relationships, behaviors, motivations, resources and conditions that enable each individual or organization to carry out its functions and achieve the goals that have been set. In Indonesia, the implementation of performance measurement in bureaucratic reform is considered important to maintain consistency and continuity of reform, because it is hoped that the
performance measurement will be able to describe information on the achievement of organizational performance which will later become the basis for becoming better (Suwatin, 2009).

**Hypothesis Development**

**Participation of Internal Stakeholders and Performance Measurement:** In the previous literature, several studies have discussed related to stakeholder participation in performance measurement. As is the case with Yang and Hsieh (2007) conducted on local government officials in Taiwan, amounting to 684 respondents. The findings of this study concluded that stakeholder participation has a significant positive effect on performance measurement. This means that the better the participation of stakeholders, the better the performance measurement will be. According to Epstein et al. (2005); GAO (2004); Ho and Coates (2004), stakeholders should be involved in designing and implementing PMS and setting organizational goals, indicators and objectives. In its development, an organization tends to find problems when compiling performance indicators (Behn, 2002).

Cavaluzzo and Ittner (2004) support this assumption by saying that there are factors that hinder the successful implementation of a performance measurement system, one of which is the difficulty of determining performance measures. Based on this uncertainty, many organizations end up imitating performance indicators from other organizations that have developed (Sofyani & Akbar, 2013). This imitation process is one part of institutional theory, namely mimetic isomorphic. In addition to determining performance indicators, internal stakeholders also play a role in determining strategies to achieve organizational goals. Yang and Hsieh (2007) suggest that stakeholder participation affects the formulation of performance measurement results. This is in line with Julnes and Holzer (2001) who mentioned that the participation of internal stakeholders improves PMS.

**H1:** Participation of internal stakeholders has a positive effect on performance measurement.

**Internal Political and Performance Measurement:** Political support is needed by an organization or institution so that when there is a transition in terms of operations, structure, personnel, to corporate culture Fernandez and Rainey (2006) in the process of implementing performance measurement in Indonesia, the organization will still obtain resources, autonomy, authority, stability, and continuity of administration (Meier, 2000). Yang and Hsieh (2007) describe that internal political support can also be referred to as organizational support. Yang (2009) also defines internal political support by using the term internal politics. Furthermore, Abane and Brenya (2021) analyzed the relationship between performance measurement and political support. The analysis uses data from 850 middle and senior managers of local government in Ghana. It is found that there is a strong influence between political support variables on performance measurement.

Abane and Brenya (2021) assert that political support is related to the authority and autonomy given to the organization, this authority and autonomy are related to measuring the performance of an organization. This assumption is supported by the statements of Julnes and Holzer (2001) and Behn (2002) which state that political factors influence the implementation of organizational performance measures. Organizational politics emerges from a lack of consensus among the entities inside the organization that has the potential to produce conflict (Morrow & Hitt, 2000). Failure to reach an agreement within the organization is caused by pressure from those in power. This pressure arises because the performance measurement has not been maximized. The pressure received to adopt a change in the organization is referred to as coercive isomorphic.

**H2:** Internal political support has a positive effect on performance measurement.

**Organizational Capacity and Performance Measurement:** Capacity is defined as the ability, absorption, or capacity of the organization. Organizational capacity is defined as the organization's ability to achieve its goals. Milen (2006) states that organizational capacity is the ability, skills, understanding, attitudes, values, relationships, behavior, motivation, resources and conditions that enable each individual or organization to carry out its functions and achieve the goals that have been set. In Akbar et al. (2012) said that organizational capacity is also known as resources. This organizational capacity or resource capacity has been widely studied before. As well as research by Wang and Berman (2001) which measures organizational capacity
with indicators of management information systems, cost-based accounting systems, competent staff and a budget surplus. Furthermore, Akbar et al. (2012) adopted the research of Wang and Berman (2001) with indicators of management information systems, competent staff, performance-based budgeting and a budget surplus.

As for the research of Aswar et al. (2020) which adopted the research of Akbar et al. (2012) with resource indicators (people, time, people), staff for evaluation, evaluation department, collection of reliable and relevant data, and performance benchmarks. Aswar et al. (2020) studied the relationship between organizational capacity and performance measurement in Bekasi City. It was concluded that organizational capacity/resources variables had a significant influence on performance measurement. As for Mahmudi (2005) said that determining the level of effectiveness and accuracy of the implementation of a performance measure depends on the availability of sources. As for van Dooren (2005) said that the lack of resources will cause problems in measuring organizational performance. To ensure that the available resources are sufficient, it is required to improve quality and be professional. This demand to be a professional is included in the isomorphic normative.

H₃: Organizational capacity of local government has a positive effect on performance measurement.

3. Research Methodology

This study uses primary data obtained directly related to the variables that are the focus of the research. The data received is the result of distributing questionnaires to respondents. The population in this study were all ASN in the Regional Apparatus Organization (OPD) of the Serang City who were involved in LAKIP, namely the Secretary and Head of the Program, Evaluation, and Reporting Subdivision totaling 63 ASN. The number consists of 32 ASN serving as Secretary and 31 ASN serving as Head of the Program, Evaluation and Reporting Subdivision. The sampling method was carried out by the saturated sample/census method, which means that the entire population contained in the study was used as a sample. This study used the Structural Equation Model-Partial Least Square (SEM-PLS) approach to test data analysis using the Smart PLS 3.0 tool. The measurement used is a Likert scale point 5, in which the statement indicators of each variable are adopted from previous studies, such as:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Indicator</th>
<th>Sources</th>
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<tbody>
<tr>
<td>Participation of internal stakeholders</td>
<td>participate in planning, opportunity, involve, understand performance measurement systems</td>
<td>Abane dan Brenya (2021)</td>
</tr>
<tr>
<td>Internal political support</td>
<td>low level of autonomy, given high authority, supports the implementation of performance management</td>
<td>Abane dan Brenya (2021)</td>
</tr>
<tr>
<td>Organizational capacity</td>
<td>Resources, allocate tasks, have a department in charge, reliable and relevant data, benchmark</td>
<td>Aswar et al. (2020)</td>
</tr>
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</table>

4. Results and Discussion

In this study, the population used was 63 ASN, consisting of 32 ASN who had the position of Secretary and 31 ASN who had the position of Head of the Program, Evaluation, and Reporting Subdivision (PEP) in all Regional Apparatus Organizations (OPD) Serang City. The distributed questionnaires by directly visiting OPD-OPD in Serang City and distributing questionnaires in Serang City OPD meetings at the Forbis Horizon Hotel, Cilegon. A total of 43 questionnaires have been returned. After obtaining the necessary data, the authors conducted statistical analysis tests and obtained the following results:
The results of the descriptive statistical data processing above illustrate that in this study no significant differences were found given by the respondents in the answers to the filled-out questionnaires. It can be seen from the overall standard deviation value which is smaller than the mean value. If the value of the standard deviation obtained is getting smaller, it means that the level of homogeneity of the data is quite high. After performing the statistical analysis test, the test was continued by using the Smart PLS 3.0 test tool. The tests carried out are testing the measurement model (outer model) and structural model (inner model). The measurement model (outer model) is used to test the validity of a variable or its construct. While the structural model (inner model) finds out how much the exogenous variable (X) affects the endogenous variable (Y). The following are the results of testing the structural model (inner model) with R-Square:

Table 3: Adjusted R-Square

<table>
<thead>
<tr>
<th>Indicator</th>
<th>R-Square Adjusted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance Measurement</td>
<td>0.621</td>
</tr>
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</table>

From the table above, it is concluded that the exogenous variable (X) which consists of internal stakeholder participation, internal political support, and organizational capacity of local government affects the endogenous variable (Y) namely performance measurement by 62.1%. While the rest is influenced by factors outside of this research. Furthermore, testing is continued by testing the hypothesis. Here are the results obtained:

Table 4: Hypothesis Test Results

| Indicator                              | Path Coefficient | T-Statistics (|O/STDEV|) | P Value |
|----------------------------------------|------------------|---------------|--------|---------|
| Participation of internal stakeholders | 0.237            | 1.838         | 0.044  |
| Internal political support             | 0.851            | 5.560         | 0.000  |
| Organizational capacity                | -0.296           | 1.817         | 0.0058 |

Based on table 4 shows the coefficient value of Internal Stakeholder Participation is 0.237. This means that there is a positive relationship between internal stakeholder participation and performance measurement. Meanwhile, based on the results of the statistical t-test, the results were 1.838 with a significance level of 0.044. This means that internal stakeholder participation has no significant effect on performance measurement because the value of t statistic < value of t table (1.96) so H1 is rejected. The results of this study contradict Yang and Hsieh (2007) who found that stakeholder participation has a significant effect on the effectiveness of performance measurement. This hypothesis was rejected because the ASN involved in LAKIP did not participate in totality. This assumption is supported by the results of the mean value of indicators related to internal stakeholders' understanding of the Performance Measurement System (PMS) which is still low. That is, it is indicated that ASN involved in LAKIP tend to have less understanding of the performance measurement system. This understanding of PMS should be the basis of the performance measurement that is carried out. This lack of understanding can become an obstacle to participation in performance measurement in Serang City and will result in a participation that is not total. If the participation carried out by ASN is getting better and in totality, the resulting performance measurement will also be better. Furthermore, internal political support got a coefficient value of 0.851 with a t statistic value of 5.560, which means the t statistic value > t table (1.96).
This means that there is a positive and significant relationship between internal political support and performance measurement. H2 is accepted. If the performance measurement is supported by a lot of internal political support, it will result in better performance measurement. This study has results that are in line with Abane and Brenya (2021) which reveals that political support has a significant impact on local government in Ghana. Finally, the organizational capacity of local government obtained a coefficient value of -0.296 with a t-statistic of 1.817 and a significance of 0.0058. That is, there is a negative and insignificant relationship between the organizational capacity of local government and performance measurement. H3 is rejected. The reason is that it is assumed that ASN has not been able to optimally allocate existing resources. This indication refers to the mean result which is still low on the indicators used in the organizational capacity of local government variable, namely that OPD has allocated staff tasks to be used as performance evaluation materials. This means that the organization is still not able to allocate its resources properly. This inability occurs because there are still many ASNs who have not received LAKIP training (based on the demographics of ASNs who have received LAKIP training). This result contradicts Aswar et al. (2020) who showed that organizational capacity/resources had a favorable effect on performance measurement in Bekasi City Regional Apparatus Organizations (OPD).

5. Conclusion and Recommendations

The purpose of this study is to examine the internal factors, namely internal stakeholder participation, internal political support, and organizational capacity of local government on performance measurement. The current study findings provided empirical evidence that the participation of internal stakeholders has no significant effect on performance measurement. Internal stakeholders in the Serang City OPD have not been carried out in totality due to a large number of State Civil Apparatuses (ASN) who do not understand the performance measurement system, therefore making performance measurement in the Serang City Government not good. Internal political support has a positive and significant influence on performance measurement. In other words, the more adequate the internal support received, the better the performance measurement will be. Meanwhile, the organizational capacity of local government has no significant effect on performance measurement. That is, the availability of resources in the organization if it is not accompanied by the ability to allocate these resources, it will not make performance measurement good.

In this case, the organizational capacity in Serang City OPD has not been utilized properly due to a lack of training in allocating staff tasks so the performance measurement that results is not optimal. Given the importance of performance measurement in bureaucratic reform, the authors suggest for ASN involved in LAKIP always improve their expertise in performance measurement, preparation of LAKIP and further deepen and pay attention to the outcomes to be achieved. This is intended to create a results-oriented government. The recommendations are based on the things contained in Law No. 17 of 2003 on State Finance, Law No. 1 of 2004 on State Treasury, and Law No. 15 of 2004 on Auditing the Management and Accountability of State Finances. There are several limitations experienced during the research process. As it is known that this study was conducted at a time when Indonesia was hit by a pandemic. This causes data collection on respondents to be limited. This unstable situation was accompanied by a deadline for reporting on accountability carried out by the OPDs in Serang City which made it difficult to meet directly with the State Civil Apparatus (ASN) involved with LAKIP.

References


