



Implementation of New Public Management Concept in Budget Preparation in Indonesia

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Abstract

New Public Management (NPM) is an umbrella concept that encompasses a range of meanings that organizational design and management, application of economic institutions over the management of the public and policy patterns. Implements concept of New Public Management in the preparation of the Budget in Indonesia a show a positive development, the effect on improving the performance of government, namely the implementation of the Performance-Based Budgeting. But the main difficulty in implementing performance-based budgets is the difficulty of agreeing on appropriate performance measures. Measuring an activity or output is easier than determining the size of the expected results or outcomes.

Keywords: *New Public Management (NPM); Performance- Based Budgeting*

Introduction

Public sector organizations are often portrayed as unproductive, inefficient, always at a loss, low in quality, poor in innovation and creativity, and various other criticisms. The emergence of strong criticism directed at public sector organizations then led to a movement to reform public sector management. One of the public sector reform movements is the emergence of the concept of *New Public Management* (NPM). This concept began to be known and implemented since 1970 and early 1980 (Grunening, 2001). NPM is part of a managerial revolution that affects all countries in the world albeit to different degrees ([http // www.undp.org](http://www.undp.org)). Practice's first Prime Minister Margaret and state governments in the United States (eg, Sunnyvale, California). This development was driven by the economic recession and revolution in the taxation field. Then following the government of New Zealand and Australia to join this movement. So that almost all countries OECD countries and others to apply the NPM (Gruening, 2001 in Nur Sayidah, 2015).

New Public Management (NPM) is the right concept to apply, because it focuses on performance-oriented public sector management (public services), bureaucratization, results-based accountability, solving public bureaucracy into work units, cutting costs and efficiency, and freedom manager to manage the organization in fair competition and better direction (liliIndrawati, 2016).

In public sector organizations the budget is an instrument of accountability for the management of public funds and the implementation of programs financed with public money. Budgeting is a process or method for preparing a budget (Mardiasmo 2004: 61). Budgeting in public sector organizations is an important activity because it relates to the process of determining the allocation and for each program and activity so that budgeting is needed communication between superiors and subordinates to provide mutual information especially those that are local information because subordinates are more aware of the immediate conditions on their part. For large organizations and are ripe (*mature*) with a relatively stable operational level in the long term, the budget is a formal document that is very detailed. Therefore, this study tries to examine how the implementation of the concept of the New Public Management in the preparation of the Budget in Indonesia.

Methodology

This research belongs to the type of literature study research by looking for theoretical references relevant to the case or problem found. The theoretical references obtained by means of research literature studies serve as a basic foundation. By using data collection methods, namely *First* in the form of documentation. Documentation is a method for finding documents or data that are considered important through newspaper / magazine articles, journals, literature, brochures, documentation books and through electronic media, namely the internet, which is related to the application of this research. *Second* in the form of literature studies. Literature study is a method used to collect data or sources related to the topics raised in a study. Literature studies can be obtained from various sources, journals, documentation books, the internet and literature.

Results and Discussion

New Public Management Concept

The term *New Public Management* (NPM) was first put forward by Crisstopher Hood in 1991 in his article " *All Public Management of All Seasons* ". Some authors define *New Public Management* (NPM) as a combination of splitting large bureaucracies into smaller, more fragmented ones, competition between different public agencies, and between public agencies and private firms and incentivization on more economic lines (Margett et al. 2006). *New Public Management* (NPM) is a new paradigm in public sector management. The concept of *New Public Management* (NPM) emerged in the 1980 's and was used to describe the public sector in the UK and Zealand New. *New Public Management* (NPM) became popular in the early 1990 's when he was adopted by the Clinton administration in the United States. *New Public Management* (NPM) is believed to have an effective role for public sector reform. This can be seen from the increasing number of countries that introduce the principles of the *New Public Management* (NPM) in their government. The IMF and World Bank are some of the world's financial bodies which are also defenders of the *New Public Management* (NPM) paradigm. *New Public Management* (NPM) emphasizes that there is control over government policy outputs, decentralized management authority, introduction to basic quasi -market mechanisms, and consumer-oriented services.

As the *New Public Management* (NPM) paradigm developed, David Osborne and Ted Gaebler (1992) produced a concept that was broadly similar to the *New Public Management* (NPM). Osborne and Gaebler with the concept of " *Reinventing Government* " suggested to inject entrepreneurial spirit into the state administration system. Public bureaucracy should use " *steering* " rather than " *rowing* ". With this " *steering* " method, the government no longer works to provide public services directly, but instead is handed over to the public and market mechanisms. So finally the role of the state is only as a catalyst in the administration of public affairs. Several years later, a more varied model of the *New Public*

Management (NPM), for example the efficiency drive model, downsizing and decentralization, in search of excellence and public service orientation (Ferlie, et al. 1996).

The different terms and views between these theorists are consistent with what was expressed by Ewan Ferlie, Lynn Ashburner, Louise Fitzgerald and Andrew Pettigrew (1996) who likened the *New Public Management (NPM)* as a blank (white) canvas that can be drawn by anyone about what are preferred. So there is not a single clear definition of what is a *New Public Management (NPM)*, how the process is, even how the *New Public Management (NPM)* should be. " *Indeed, sometimes the new public management seems like an empty canvass: you can paint on it whatever you like. There is no clear or agreed definition of what the new public management actually is and not only is there controversy about what is, or what is in the process of becoming, but also what ought to be.* "

The concept of *reinventing government* offered by Osborne and Gaebler is the closest to what and how the *New Public Management (NPM)* is. Osborne and Gaebler offer 10 (ten) principles of an entrepreneurial government, namely:

1. Catalyst governance

A catalyst government is a government that directs rather than pedals. Here the government only carries out strategic functions and does not interfere in the implementation or technical activities. The role of government is only as a planner, originator of vision, and provider of various other strategic policies. In addition, various methods can be used to achieve public organizations achieve their goals, choose the most appropriate method to achieve efficiency, effectiveness, equality, accountability, flexibility such as, privatization, licensing, concessions, operational cooperation, contracts, vouchers, tax incentives, etc. -other.

2. Community- owned government

Emphasizing the control of the community as a result of empowerment provided by the government. So that people are more capable and creative in solving problems, without relying on the government. Finally, the people serving themselves are no longer the government that is doing it, but the government is still making sure the people get their basic services. With the control of the community, public servants will have a better commitment, more care, and more creative problem solving.

3. Competitive governance

A government that includes the spirit of competition in providing services to the community. People here as consumers have the right to choose which service is better, so that the government competes with each other to be the best.

4. Mission-driven government

Governments that are able to change the orientation of a government driven by rules become a government driven by a mission. This means that the government does not have to go according to the rules, because with the rules the government is slow and prioritizes procedures that are in accordance with the rules. With a mission driven by the mission utamalah put forward in running the government.

5. Results-oriented governance

The government which finances the results is not an input. The government in this case will work as well as possible because the awards received are based on the results issued by each agency. With this the government performance is getting better to get a good award as well.

6. Customer-oriented government

Governments that meet customer needs are not bureaucratic. The government fulfills what the people want instead of running services based on bureaucratic rules. The government in this case needs to conduct a survey to see the development of community needs, which ultimately the government becomes effective and efficient.

7. Entrepreneurial government

Government that generates profit is not spent. Trying to increase the economic resources owned by government agencies from unproductive to productive, from low production to high production, by adopting relevant private work principles in public administration. We can see this in the BUMN / BUMD owned by the government.

8. Anticipatory governance

Prevention-oriented governance is not healing. Anticipatory government is a government that thinks ahead. The government is trying to prevent problems from arising rather than providing services to solve problems, using strategic planning, providing a vision of the future, and various other methods to see the future.

9. Decentralized governance

Changing government-driven hierarchy into participatory governance and partnership teams. Decentralized government is a government that delegates a portion of the central authority to the regions through existing organizations or systems. So that employees at the local level can directly provide services and be able to make decisions in a way.

10. Government market-oriented

Government that drive change through market government market oriented often times take advantage of the structure of the private market to solve the problem of the use of administrative mechanisms, such as service delivery or the government and control by using the rules. By creating financial incentives, tax incentives, etc., so that in this way private organizations or community members behave that lead to solving social problems.

New Public Management (NPM) Principles

New Public Management (NPM) is an umbrella concept that houses a range of meanings such as organizational and management design, the application of economic institutions to public management, and policy patterns. According to (Hood 1991) there are 7 characteristics of *New Public Management*, namely:

1. *Hands-on professional management* (Professional management in the public sector). Emphasis on professional management expertise in controlling an organization.
2. *Explicit standards and measures of performance* (The existence of performance standards and performance measures). Strict and measurable standards for organizational performance, including clarification of objectives, targets and indicators of success.
3. *Greater emphasis on output controls* (*Greater emphasis on* controlling output and outcome). Transition and use of input controls into output, in bureaucratic procedures which are all measured through quantitative performance indicators.
4. *A shift to desegregations of units in the public sector* (The division of work units in the public sector). The transition from centralized to decentralized management system of unit- unit sectors of the public.
5. *A shift to greater competition in the public sector* (Creating competition in the public sector). The introduction of greater competition in the public sector, such as saving funds and achieving high standards through contracts and the like.
6. *A stress on private sector styles of management practice* (Adopting management styles in the business sector into the public sector). Emphasis is placed on private company- style management practices such as short work contracts, building corporate plans, and mission statements.
7. *A stress on greater discipline and parsimony in resource use* (Emphasis on discipline and greater savings in using resources). Emphasis on trimming, efficiency, and doing more with less resources. The public sector should work harder with limited resources (*to do more with less*).

These characteristics confirm that the *New Public Management* (NPM) is closely related to the increasing importance of services to service users; devolution; regulatory reform towards higher quality public services. The success of the *New Public Management* (NPM) is highly dependent on the context and characteristics of the country and sector handled, the ability of the institution, and the context of the institution itself such as the climate and management ideology adopted, attitudes towards authority, social relations and groups (Ferlie *et al.* 1996; Flynn 2002).

***New Public Management* (NPM) in Indonesia**

The New Public Management (NPM) in Indonesia actually started in 1999 with the issuance of Presidential Instruction No. 7 of 1999 concerning Performance Accountability of Government Agencies. Carrying out the accountability of the performance of government agencies is a form of accountability of government agencies in achieving the mission and objectives of the organization in carrying out the tasks of government. In its development, until now the implementation of the *New Public Management* in government organizations in Indonesia has shown positive developments, which have an effect on improving government performance.

Reforms in public sector accounting play an important role in the *New Public Management* (NPM) agenda due to the application of the *New Public Management* (NPM) related to the concept of public sector performance management where performance measurement is one of its principles. The concept of *New Public Management*, (NPM) calls for decentralization, devoluasi (delegation) and granting greater authority to subordinates (government area) which aims to create an organization that is more efficient. In Indonesia, the implementation of decentralization can be seen by the existence of regional autonomy, namely the granting of the rights, authority and obligation to self-regulate and manage

the affairs of government and the interests of the local people regulated in Law Number 32 of 2004 concerning regional government and Law Number 33 of the Year 2004 concerning financial balance between the central government and regional governments (Novita Indrawati, 2010).

Budgeting in Indonesia

Mahsun et al (2006: 81) explain the budget is a statement about the estimated performance to be achieved by an organization within a certain period expressed in monetary measures. In public sector organizations the budget is an instrument of accountability for the management of public funds and the implementation of programs financed with public money. Budgeting is a process or method for preparing a budget (Mardiasmo 2004: 61). Budgeting in public sector organizations is an important activity because it relates to the process of determining the allocation and for each program and activity. In preparing the budget, communication is needed between superiors and subordinates to provide information to each other, especially local information, because subordinates are more aware of the conditions directly on their part. For large organizations and are ripe (*mature*) with a relatively stable operational level in the long term, the budget is a formal document that is very detailed. (Novita Indrawati, 2010).

Implementation of New Public Management (NPM) of the Budgetary

The application of the *New Public Management* (NPM) is seen as a form of management reform, depoliticization of power, or decentralization of authority that drives democracy (Pecar 2002). Change begins with the process of *rethinking government* and continues with *reinventing government* (including *reinventing local government*) which changes the role of government, especially in terms of government relations with the community (Mardiasmo 2002; Ho 2002; Osborne and Gaebler 1993; and Hughes 1998). Trends in almost every country lead to the use of performance-based budgeting, *outcome* -based management, and the use of *accrual* accounting, although they do not occur at the same time (Hoque 2002; Heinrich 2002). Polidano (1999) and Wallis and Dollery (2001) stated that the *New Public Management* (NPM) is a global phenomenon, will but their application may vary depending on factors *localized contingencies*. Although the application of *New Public Management* (NPM) varies, it has the same goal of improving efficiency and effectiveness, increasing responsiveness, and improving managerial accountability.

The *New Public Management* (NPM) paradigm in the public sector affects the change in the budget system, from the traditional model to a performance-based *budget*. Performance-based budgeting is defined as budgeting by taking into account the relationship between funding and expected outputs and including efficiency in achieving those results and outputs” (referring to Article 7 paragraph (1) PP No.21 / 2004). In performance-based budgeting, performance indicators, cost standards and performance evaluation of each program and type of activity are needed” (referring to Article 7 paragraph (2) PP No.21 / 2004) (Novita Indrawati, 2010).

There is a very significant difference between the two budget systems. The difference can be seen in table 1.

Table 1: Comparison of Traditional Budgets with Budgets with the NPM Approach

Traditional Budget	Budget On ERP M NPM
Centralization	Decentralization
Input oriented	Oriented on inputs, outputs and outcomes (<i>value for money</i>)
Not related to the term plan	Whole and comprehensive with planning long-term
<i>Line items and incremental</i>	Based on performance goals

Rigid departmental limits	Cross department
Use the classic rule of <i>vote</i>	<i>Zero based budgeting, planning programing budgeting system</i>
The principle of gross budget	Systematic and rational
Are annual	<i>Bottom up budgeting</i>
Specific	

Source: Mardiasmo (2009)

Approach new in the budget system of public tersebu has the following characteristics:

1. Comprehensive / comparative
2. Integration and cross department
3. Rational retrieval process
4. Futures Long
5. Specification of objectives and priority ranking
6. Analysis of total costs and benefits (including *opportunity costs*)
7. Input, output and outcomes oriented, not just input
8. There is performance control

Performance-based budgeting is very beneficial because the available resources are very limited. Performance-based budgeting can help decision makers get better value with limited funds so that it can improve government efficiency and effectiveness. Managers can arrange priorities between highly competitive needs and the results of these decisions can be observed directly on the matrix and performance trends (Kilian 1999). Kilian further stated that the *performance budget* can improve internal management. Leaders and managers know better what to expect because the *performance budget* communicates the vision of superiors to subordinates.

The performance budget reflects several things. First, the purpose and purpose of the request for funds. Second, the costs of the proposed programs to achieve this goal. And third, quantitative data that can measure achievement and work carried out for each program. Budgeting with this performance approach focuses on the efficiency of organizing an activity. Efficiency itself is a comparison between output and input. An activity is said to be efficient, if the output produced is greater with the same input, or the output produced is the same as fewer inputs. This budget is not only based on what is spent alone, such as that occurred in the system budget traditional, but also based on specific objectives / plans whose implementation needs to be prepared or supported by a sufficient budget and the use of these costs must be efficient and effective. In Indonesia, performance-based budgeting in government is stipulated by Government Regulation No. 21 of 2004 concerning the Preparation of Work Plans and Budgets of State Ministries / Institutions which confirms that work plans and budgets are prepared with three approaches, namely: 1) Integrated budget (*unified budget*); 2) Medium Term Expenditure Framework (KPJM) (*medium term expenditure frame work*); and 3) Penganggaran Performance Based (*performance based budget*) (Novita Indrawati, 2010).

Implementation of Performance Based Budgeting

The Indonesian budget system underwent a transformation after the 1997/1998 economic and political crisis. The transformation includes *a new legal framework for budgeting, a unified and more comprehensive budget, and massive fiscal decentralization and empowerment of local government.*

1. *A New Legal Framework for Budgeting* (Framework for New Budget) Before the crisis, in Indonesia there to frame an effective legal system for budgeting. Budget preparation is done internally by the governor. The process does not meet the principles of transparency and accountability (Blondal *et al.* 2009 in Novita Indrawati, 2010).

2. *A Unified and More Comprehensive Budget (The Unified and More Comprehensive Budget)* The second transformation in the budget system is the formation of a *unified budget* and *comprehensive budget*. A *unified budget* was formed to improve the planning and budgeting functions. This is done to eliminate duplication and efficiency.
3. *Massive Fiscal Decentralization and Empowerment of Local Government (Fiscal Desentralisation and Regional Government Autonomy)* The third transformation carried out by Indonesia called the "*big bang*" decentralization program that began in 2001. Regions have been given authority on significant functions by the central government.

Conclusion

Reforms in public sector accounting play an important role in the *New Public Management* (NPM) agenda due to the application of the *New Public Management* (NPM) related to the concept of public sector performance management where performance measurement is one of its principles. The concept of *New Public Management*, (NPM) calls for decentralization (delegation) and granting greater authority to subordinates (government area) which aims to create an organization that is more efficient. In public sector organizations the budget is an instrument of accountability for the management of public funds and the implementation of programs financed with public money. Budgeting is a process or method for preparing a budget (Mardiasmo 2004: 61).

So that in the preparation of the budget is needed communication between superiors and subordinates to provide mutual information, especially those that are local information because subordinates are more aware of the conditions directly on their part. The Government of Indonesia has made preparations for the implementation of the Performance Based Budget by issuing various laws and regulations as well as technical and implementation guidelines. Based on the package of laws on state finance, there is a change in the mindset of the management of state finances that prioritizes efficiency and effectiveness and encourages the realization of accountability and transparency. New paradigm changes should be supported by personnel or human resources who are reliable, have appropriate competencies and have clear and measurable performance. But the main difficulty in implementing performance-based budgets is the difficulty of agreeing on appropriate performance measures. Measuring an activity or output is easier than determining the size of the expected results or outcomes.

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