

The Design and The Use of Performance Accountability Systems: A Reflection in Indonesia Local Government

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Abstract

Objective–To understand the design and the use of Performance Measurement Systems (PMS) in Indonesia Local Government (ILG), mainly in Batu city (East Java Province, Indonesia) that presented paradoxes of performance. The issues of performance accountability have been stirring Batu city to implement PMS since the beginning of the 2000s. *Methodology/Technique* –The researchers employ a single case study to scrutinize the design and the use of PMS by outlining document analysis conducted from the interviews of 5 key informants in a different range of management levels (top and bottom). *Findings* – The design and the use of PMS in Batu city are changing to strategic performance measurement, but not yet entirely performed and institutionalized. This can be seen in performance activities such as performance planning, performance measurement, performance reporting, and performance evaluation.

Keywords: Performance Accountability Systems, The Design and The Use of Performance, Indonesia Local Government, Batu City

1. Introduction

Performance measurement has attracted attention of academics and practitioners for more than 30 years (Akbar et al., 2015; Kihn, 2010; Otley, 1978). The research was beginning in the private sector (Chenhall and Smith, 2007; Johnson and Kaplan, 1987; Kaplan, 1983). Further, several studies addressing the issues of performance measurement in the public sector (Akbar et al, 2015; Jurnal & Siti Nabihah, 2015; Yetano, 2013; Akbar et al, 2012; Micheli and Neely, 2010; Silva and Ferreira, 2010; Cavalluzzo and Ittner, 2004; Hood et al., 1998). In Indonesia, the attention in performance measurement began to emerge at the beginning of the reform era in 1999 when President B.J. Habibie signed and launched a Presidential Instruction/Instruksi Presiden (Inpres No. 7/1999) about Performance Accountability Report of State Apparatus/Laporan Akuntabilitas Kinerja Institusi Pemerintah (known as LAKIP). Initially established as an annual performance report, LAKIP has developed more into a performance measurement system by requiring public sector agencies to describe their vision, mission, strategic objectives and key performance indicators (KPIs), and providing mechanisms to link KPIs with the agency's goals and budget (Rhodes et al., 2012).

Furthermore, after the Indonesian Government published Inpres No. 7/1999, then several regulations have been issued, particularly on performance measurement systems such as: 1) Perbaikan Pedoman Penyusunan Pelaporan Akuntabilitas Kinerja Instansi Pemerintah/ Improvement of Guidelines for Preparation of Performance Accountability Reporting for Government Agencies (Public Administration Agency Decree No. 239/IX/6/8/2003 or PAAD 239/2003); 2) Pelaporan Keuangan dan Kinerja Instansi Pemerintah/Financial Reporting and Performance of Government Agencies (Government Regulation No. 8/2006 or GR 8/2006); 3) Pedoman Umum Penetapan Indikator Kinerja Utama di Lingkungan Instansi Pemerintah/General Guidelines for Establishing Key Performance Indicators in Government Agencies (Ministry of State Apparatus and Bureaucracy Reform Regulation No. 9/M.PAN/5/2007 or MSABR 9/2007); 4) Pedoman Penyusunan Penetapan Kinerja dan Pelaporan Akuntabilitas Kinerja Instansi Pemerintah/Guidelines for Preparing Performance Determination and Reporting on Performance Accountability of Government Agencies (Ministry of State Apparatus and Bureaucracy Reform Regulation No. 29/2010 or MSABR 29/2010); 5) Sistem Akuntabilitas Kinerja Instansi Pemerintah/Government Agency Performance Accountability System (Presidential Regulation No. 29/2014 or PR 29/2014); and 6) Pedoman Evaluasi atas Implementasi Sistem Akuntabilitas Kinerja Instansi Pemerintah/Guidelines for Evaluating the Implementation of Government Agency Performance Accountability Systems (Ministry of State Apparatus and Bureaucracy Reform Regulation No. 12/2015 or MSABR 12/2015).

In 1998, a new order regime ended and a new era began with democratic administration being based, not on the dictates of an all-powerful president, but upon the rule of law and the disciplines of democratic accountability (Alm and Bahl, 2000). Two fundamental laws, UU No. 22/1999 (superseded by UU No. 32/2004) and UU No. 25/1999 (superseded by UU No. 33/2004), delivered to start of the transformation in Indonesian society. The position of LAKIP in the control system of the Indonesian Government became very important when the President launched the bureaucracy reform initiative in 2010 (Dwiyanto, 2011).

New Public Management (NPM) and good governance models in this transformation were having the most important impact on Asian institutional reforms, includes Indonesia (Cheung, 2011). In Indonesia, this reform aimed for greater transparency in government transactions, clearer accountability for results to the public, and performance information and systems more useful for decision-making within the public sector through LAKIP.

This research focused in Batu city, East Java province, Indonesia. Batu, as the youngest autonomy region in East Java, is one of the city that formed in 2001 as a breakaway from Malang District. Although it is the youngest city in East Java, seen from the level of prosperity and economic development, Batu is a developed area. This can be seen from the comparison of several regency/city indicators in East Java. In 2017, the Human Development Index (HDI) in Batu was 74.26, where this number belongs to the high HDI category. This figure is higher than the HDI in Malang District, which is still included in the medium HDI category (Batu Municipality in Figures 2018:296). As well as, over the last three years (2015-2017), Batu includes on the category of regency/city that has economic growth faster (2nd) in East Java, Indonesia (Batu Municipality in Figures 2018: 305).

In this case, Batu city is selected because it shows performance paradoxes. Batu has some achievements such as on PMS, especially planning system (received national award for the best development planning ranking on District/City level in 2016 and 2017) as well as on financial performance. Until 2017, Batu city still gets a “C” ranking of LAKIP (performance accountability report). This ranking is the lowest from Districts/Cities in East Java, Indonesia (Period of 2016-2017).

As one of the local governments in Indonesia, Batu is also required to apply a performance measurement system, which simultaneously began in 2010. The success or failure of the implementation of this system is influenced by the design and the use of PMS (including performance planning, performance measurement, performance reporting, and performance evaluation) in Batu city.

Furthermore, the Ministry of State Apparatus and Bureaucratic Reform has conducted an assessment in 2017. Based on the assessment, Batu city has several problems with performance accountability systems such as quality of performance planning, performance measurement, performance reporting, and performance evaluation. Therefore, the aim of this research is to understand the design and the use of PMS in Batu city. Thus the benefits will be obtained, namely as an evaluation for Batu city itself and also local governments in other developing countries. This research also supported by previous researches, such as Seah et al (2019); Akbar et al (2015 & 2012); Yetano (2013 & 2009); Mimba et al (2013); Kloviene and Loreta (2013); Victorian Government (2012); Micheli, P. and Neely, A. (2010); Poister, T., H. (2010); and Ashworth et al (2009).

2. Literature Review

To achieve the effectiveness of the performance measurement system (PMS) is a difficult and complex task that needs to integrate all systems particularly linking strategy and performance to various stakeholder needs. To better serve the citizens, the local government should manage and measure its performance using PMS. The implementation of PMS through LAKIP are not always successfully to improve decision-making or accountability (Brusca and Montesinos, 2013). For example, Neely et al. (2003) argued that a poorly designed PMS may not only be of no benefit to the organization but could potentially result in dysfunctional behaviors. In many cases, agencies focused on fulfilling the symbolic formal reporting requirements, rather than the functional use of performance information (Mimba et al., 2013).

The system is a certain way and is usually done repeatedly to carry out a series of activities. A number of characteristics of the system that are more or less form a certain rhythm, coordinated, and repeat a series of certain stages (Anthony and Govindarajan, 2002). The development of a series of systems within the organization aims to uphold good organizational principles in order to achieve goals. Performance Accountability System of Government Agencies (Sistem Akuntabilitas Kinerja Instansi Pemerintah or called “SAKIP”) is basically an instrument used by government agencies in fulfilling the obligation to account for the success and failure of the organization's mission implementation, consisting of various components which constitute a single entity, namely strategic planning, performance planning, performance measurement, and reporting performance (PAAD 239/2003:3).

Presidential Instruction No. 7 of 1999 said that the purpose Performance Accountability System of Government Agencies is to encourage the creation of performance accountability of government agencies as one of the prerequisites for the creation of a good and reliable government. Performance Accountability System of Government Agencies is carried out on all the main activities of government agencies that contribute to the achievement of the vision and mission of government agencies. It was also stated in the Inpres that the target of the Government Agency Performance Accountability System was:

- (1) Making government agencies accountable so that they can operate efficiently, effectively and responsively to the aspirations of the community and its environment;
- (2) Realizing transparency of government agencies;
- (3) The realization of community participation in carrying out national development;
- (4) The maintenance of public trust in the government.

3. Research Method

Researchers carried out a case study to see the design and the use of PMS as a factual phenomenon. A case study is particularly suitable for the purposes because it combines analysis of documents with interviews. Researchers analyzed LAKIP (Laporan Akuntabilitas Kinerja Institusi Pemerintah/Performance Accountability Report of State Apparatus), Strategic Plans, some reports from the evaluator, and regulations. It has been analyzed in the period from 2017 to 2019. This research was done prior to and after the interviewees to triangulate the data obtained. The focus of the interviews is to understand the design and the use of PMS in Batu city from the interpretation of key interviewees. Researchers divided interviewees into two categories of management levels: top (1 Mayor) and bottom (4 employees in functions of planning, audit, finance, and organization).

4. Results and Discussion

4.1. Design and Use of Performance Measurement System in Batu City

The Performance Accountability System for Government Agencies (SAKIP) had been introduced by the Indonesian government. It requires that any government agency including local governments to implement performance management systems that include the use of strategic plans and performance measures. The output of SAKIP is a performance accountability report (LAKIP). This report will be evaluated by the Ministry of Bureaucracy Reform annually.

Batu city was not only accountable for its performance based on established in advance goals and objectives in planning and budgeting documentation (for example mid-term plans), but also for other activities such as systematic measurement, monitoring, reporting, and evaluation. Performance Measurement System (PMS) in Batu city was partially implemented since 2010. The lack of commitment from top management support led to limited scope, intensity, and impact of the PMS in Batu city. As the PMS is used to demonstrate formal compliance with the governmental directive, the foundation of the values the system, such as accountability, transparency, effectiveness, and efficiency, were not deeply achieved. Furthermore, the development of indicators was not an integrative process as departmental level indicators were independently developed to comply with central government requirements, which were different for each department. During the implementation process of PMS in Batu city; many activities and programs reported in the performance report were not mandated or aligned to planning objectives. This led to 'adjustments' in planning documents to justify actual activities carried out.

The lower ranking of Batu city in 2017 and several years ago as compared to other local authorities in the East Java Province lead to changes at the organization. In dealing with the SAKIP annual evaluation system, specifically in 2018, Batu city has changed its approach both conceptual and practical. Whilst previously the SAKIP annual evaluation was being viewed by the management of Batu city as a ritual process, now, management has changed the way they view the annual SAKIP evaluation. Furthermore, management are more committed to boost the program for PMS adoption throughout every organizational level. This program, unlike in prior periods, is followed up by more effective and hierarchical socialization, do training programs, seminars, workshops, the benchmark in some high rating scores of local governments, as well as intensive assistance by the East Java Provincial Government and university for Batu city officers.

The adoption of a new system, including this PMS, is encouraged by the pressure from regulation (Modell, 2012). He stated that pressure from regulation is one major driver behind the implementation of the system. In Indonesia, especially Batu city, this also applies when Inpres No.7/1999 emerged. Batu city turned its attention to performance reporting. Despite PMS offer the potential benefits to enhance accountability, Batu city was still struggling with their interpretation of the value of PMS and low technical capability, especially with the irrelatively low quality of human resources. This pressure was expressed by one interviewee (Mayor of Batu city) as follows:

“In this year (2017), we focus on the design and use of performance measurement in Batu city to fulfill regulation requirements from central government. LAKIP ranking must be improved”.

With the reforms came, the central government released various regulations and these affected ILG. When a situation of uncertainty and insufficient information arises, mimicking the behavior of others can help in the pursuit of perceived legitimacy (Haveman, 1993). Comment from one interviewee (sub-division head of performance development and apparatus resources) supporting this claim include:

“To prepare a performance report is difficult enough. Until 2017, we still get C ranking. So, we must increase that ranking with copy best practices from other local governments to comply with regulations such as Malang city, Malang district, Blitar district, Kediri city, Banyuwangi district, and Yogyakarta city”.

The comment stated that if the adaptation of policy is difficult and not well understood to use, an easy option is to copy what others have done well. The summary of the design and the use of PMS in Batu city shown in Table 1.

Table 1. Design and Use of PMS in Batu City

	Batu City Government
Type	Towards strategic performance measurement, but not yet fully used
Planning	<i>Objectives:</i> Visions, missions, and goals have both operational and strategic elements <i>Plans, Indicators & Targets:</i> Plans, indicators, and targets for strategic and operational processes are developed simultaneously
Monitoring & Review	<i>Strategic:</i> Monitoring & Review – yearly <i>Operational:</i> Monitoring – monthly, Review – yearly
Rewarding	Operational based rewards and penalties: social recognition/pressures, financial & non-financial benefits
Use	Top-down approach

Source: Data processed in 2019.

4.2. Evaluation of LAKIP Report

Based on the MSA-BR Regulation 25/2012, the LAKIP evaluation is conducted from five main components of performance management, consisting of:

1. Performance planning (30%);
2. Performance measurement (25%);
3. Performance reporting (15%);
4. Performance evaluation (10%); and
5. Performance achievement (20%).

Those regulations show an important rating of accountability reports. After the evaluation of the comprehensive process, each performance report (LAKIP) is entered with a score from 0 to 100. The score is then ranked into the six rating categories as presented in Table 2.

Table 2. LAKIP Scoring

Score	Rating	Meaning
85-100	AA	Excellent
75-84	A	Great
66-74	B	Very Good
50-65	CC	Good
36-49	C	Fair
0-35	D	Bad

Source: Data obtained in 2019.

The results of this study show that Batu city has indicators of performance paradoxes. Batu has some achievements on PMS (particularly in planning systems, receiving a national award for the best development planning rating on District/Municipality level in 2016 and 2017), financial performance (receiving an Unqualified Opinion of Financial Statement from the Indonesian Supreme Audit Agency/Badan Pemeriksa Keuangan for the 3rd time), as well as on regionally economic growth consistently in recent years despite graded in “C” rating for more than 3 years to 2017. LAKIP of the Batu city was unfortunately at the lowest rating from other Districts/Cities in East Java, Indonesia. The score for Batu city from 2016 to 2017 is shown in Table 3.

**Table 3. The score of Performance Component of Batu City
(the Year of 2016-2017)**

	Assessment of Component	Weight	Score	
			2016	2017
a.	Performance planning	30	14.04	13.41
b.	Performance measurement	25	8.05	7.81
c.	Performance reporting	15	6.52	9.14
d.	Performance evaluation	10	1.26	1.86
e.	Performance achievement	20	11.85	9.81
	Score of evaluation result	100	41.72	42.03
	Level of performance accountability		C	C

Source: Data obtained in 2019.

4.3. Performance Planning

Government Regulation No. 8 of 2006 required that all local governments should adopt the Performance Measurement System (PMS). In 2010, Batu city started to adopt the system in a more formal and systematic manner. However, the PMS adoption was not only limited in its scope and intensity but was also supported by no real strong commitment of management. PMS was adopted just as formal compliance without ensuring the values underpinning the system such as accountability, transparency, rule compliance, effectiveness, efficiency, the spirit of competition, and quality orientation were implanted. This was particularly due to the use of external consultants to design the system without the presence of relevant skills and competency among the officers. For most of the staff, for instance, PMS is a relatively novel governmental performance measurement system. This situation delivered a non-contextualised performance improvement model. Nearly all the critical works involved in the preparation of documents and development of the indicators were done by the consultant with limited involvement of Batu city public officers. Such an approach does not lead to skills improvement among Batu city officers. Consequently, Batu city's understanding of the nature of the PMS was low and the common language and interpretation about the content of the performance were lacked.

4.4. Performance Measurement

The symbolic monitoring process was found in Batu City due to the lack of engagement by the Mayor and head of management. As such, Batu city did not benefit fully from the monitoring process as the information produced was not analyzed and used to improve performance. There are still a lack of performance monitoring periodically and a lack of utilization of the results of performance measurement.

Most departments were unable to define and formulate performance indicators. Another issue is performance indicators were not closely monitored at the organizational level or by heads of the department because the indicators were perceived to be less important than budgetary control and other issues. The local government secretary used budgetary spending to evaluate departmental performance while the internal audit department focused on the evaluation of programs, activities, and budgets rather than the achievement of performance targets.

4.5. Performance Reporting

In 2017 was a rather elaborate year for Batu city. The main reason is that in 2017 all surrounding Local Governments in the region experienced significant improvement characterized by evaluation from the Ministry of State Apparatus and Bureaucratic Reform of higher-level SAKIP implementation (see in Table 4). Moreover, East Java Province even obtained the highest rank (A) among Provinces in Indonesia.

Table 4.SAKIP Performance Batu city and surrounding some Local Governments in East Java, Indonesia, Period of 2016-2017

No.	District/City in East Java	Year of evaluation (2016)		Year of evaluation (2017)	
		Grade	Ranking	Grade	Ranking
1	Kab. Banyuwangi	80,12	A	81,31	A
2	Kab. Pasuruan	65,65	B	74,03	BB
3	Kab. Sidoarjo	64,04	B	71,69	BB
4	Kab. Gresik	60,08	B	71,67	BB
5	Kab. Lamongan	60,86	B	70,96	BB
6	Kota Malang	70,94	BB	70,96	BB
7	Kab. Malang	62,24	B	70,51	BB
8	Kab. Bangkalan	54,55	CC	56,06	CC
9	Kab. Sampang	50,06	CC	55,83	CC
10	Kota Batu	41,72	C	42,03	C

Source: Ministry of State Apparatus and Bureaucratic Reform (accessed in 2019).

As the ranking results are seen as a success in managing the local government, being in the lowest rank of annual SAKIP grading evaluation is disappointing. Though the efforts to elevate the achievement rank of SAKIP, at least based on the evidence from the documentary, interviews as well as from observation, have been factual, the case of “SAKIP disaster” in 2017 was more than what has been happened previously. Problems also arise because of the performance report is not in accordance with the performance reporting criteria, the performance report has not been fully reviewed by the internal auditor and inaccuracy in submitting the performance report. It provides that the top management needs to rethink what has been conducted all this time in the journey of finding more appropriate strategies and methods to implement PMS in the coming years.

The failure of SAKIP in 2017 was a major arouse for the management of Batu city as Batu city obtained the lowest ranking among the local governments in the East Java Province. Despite got low ranking, Batu city experienced improving economic conditions as well as granted “the best local government in planning” by a central agency, i.e, National Agency of Development Planning (BAPPENAS) in 2016 and 2017.

The lowest ranking for LAKIP 2017 showed that the LAKIP’s journey in Batu city has not been an effortless journey. Several problematic issues emerged since its initial stage such as lack of understanding about the philosophy of organizational performance measurement among the staff including the high-level ones, inconsistencies between the Strategic Plan and the Local Government Middle Term Development Plan (RPJMD), the inability to define performance, the inability to compile performance indicators, also the inconsistency between planning and budgeting. In addition, LAKIP is still documentation or formality, not have led to improving the quality of implementation.

“In 2017, we got a C ranking for LAKIP 2017. This ranking was the lowest ranking in East Java Province. This is a big “homework”. We have committed to improving performance in Batu city to get a better ranking (Mayor)”.

Comment showed that Mayor felt embarrassed because Batu city got the lowest category of LAKIP in East Java Province. Mayor and her team are struggling now to improve the category. It means that Mayor attempts to meet the demands of legitimacy as a priority.

Furthermore, Batu city management is more focussed on correcting SAKIP implementation as compared to before. The 2017’s SAKIP debacle had been a lesson learned. Since planning in SAKIP is critical, it is 30% worth in SAKIP ranking evaluation, this aspect became the first target in the 2018 SAKIP better program without neglecting other aspects such as measurement, implementation, and reporting that include in other 70%. In the hand of the new Mayor, Batu city reduced the number of as well as indicators simplified them. Training and enhancement of understanding for SAKIP were intensified and accompanied by the introduction of a performance bonus scheme. The monitoring mechanism was also performed more frequently and the performance contract was implemented not limited to the department’s head but for individual staff. These attempts lead Batu city to achieve B ranking in 2018.

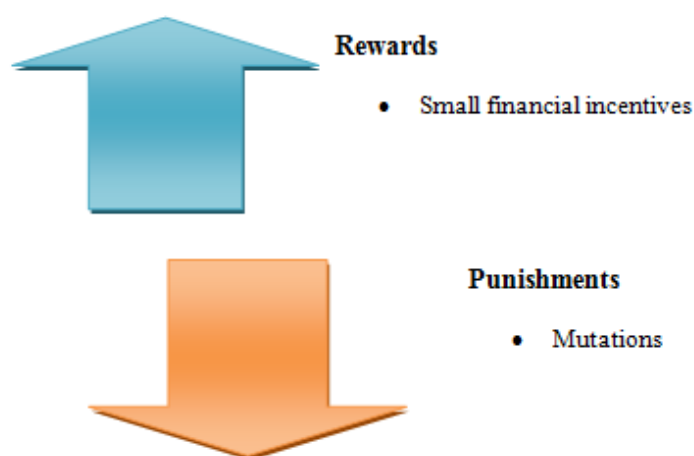
The external factors were due to ranking that showed other local governments in the province have improved their position in the ranking while Batu city has not shown any improvement. Thus, the 2017 SAKIP result is the strongest driver for change in Batu city. The pressure is even more with the increase in publicity from the central government on using the SAKIP achievement score as the main indicator used in measuring success in governing government.

Thus, failure in SAKIP evaluation shown in the low SAKIP ranking began to be interpreted by the management of Batu city as decreasing public legitimacy. In this case, the yearly publication of SAKIP achievement among government agencies by the central government seems to be more effective to boost governmental organizations in gaining the higher rank of SAKIP and institutionalizing spirit of accountability within governmental organizations. As a result, even though SAKIP achievement both nationally and regionally only improved gradually; on a yearly basis, the number of local governments that achieved a lower rank has decreased gradually.

4.6. Performance Evaluation

In Batu city, there was no clear link between performance and rewards in internal organization. Performance results did not lead to social repercussions. Hiring, promotion, and work transfers were influenced by political connections and personal relationships. Started in 2017 and 2018, the personal reward is just given to employees who in charge of preparing the LAKIP report. Although unaccomplished KPI targets were publically disseminated through service counter displays to ensure quick response by employees, there were no serious consequences for poor performance. The organization just gives punishment such as mutations for poor performance.

Figure 1: Performance Culture Development - Lesson from the Case Organization



Source: Data obtained in 2019.

5. Closing

5.1. Conclusion

The design and the use of PMS in Batu City are moving towards strategic performance measurement, but not yet fully used. This can be seen as follows:

1. Performance planning: The visions, missions, and goals have both operational and strategic elements as well as plans, indicators, and targets for strategic and operational processes that are developed simultaneously. Although it still happens low quality and orientation of the officers.
2. Performance measurement: There are still a lack of performance monitoring periodically and a lack of utilization of the results of performance measurement.
3. Performance reporting: The performance report is not in accordance with the performance reporting criteria, the performance report has not been fully reviewed by the internal auditor and inaccuracy in submitting the performance report. The major motivation to implement PMS is to meet pressure from the central government.
4. Performance evaluation: There are still a lack of internal evaluation of the implementation of performance management, low capacity of evaluator resources, low quality of recommendations for evaluation results, and low-performance accountability.

5.2. Limitation and Recommendation

Researchers are currently living and studying in China and the case study is taken in Batu city, Indonesia. The limitation is the time to collect comprehensive data in the field. Minimizing the limitation such as time, relevant interviewees, and costs are recommended for further research.

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