



Implementation of New Public Management (NPM) on the Performance of Public Sector Organizations in Indonesia

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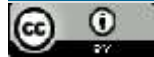
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ABSTRACT

The presence of New Public Management is intended as a renewal in public sector governance by introducing a system that has been practiced in private sector business activities. NPM is a form of bureaucratic reform paradigm in Indonesia due to the demands of society in the reform era. This study is a literature study that describes the implementation of NPM on the performance of public sector organizations in Indonesia. Through the analysis of relevant literature, the results of the study indicate that NPM which is expected to improve the performance of public sector organizations in Indonesia cannot be implemented perfectly due to limitations and the emergence of various problems in the implementation of NPM in public sector organizations.



INTRODUCTION

Indonesia in the reform era is highly demanded by the community to make changes in the bureaucratic system in Indonesia. This reform paradigm is a challenge for the Indonesian nation, because the changes in this era emphasize renewal, innovative and productive thinking in every regional institution to the central level institution (Hayat, 2020). Bureaucratic reform as one of the government's efforts to achieve good governance (PMK, 2020). This change in the public sector is the main focus of the government in determining government output. The achievement of this output is based on the success of government programs and is right on target (KEMENKEU, 2021). Minister of State Apparatus Empowerment and Bureaucratic Reform (PANRB) Tjahjo Kumolo stated that the implementation of bureaucratic reform in 2020-2024 is based on two principles, namely focus and priority (PAN RB, 2020). According to Winengan (2018) the public policy stream in recent times has a strong foundation in economics, thus shifting attention to the implementation of new policies called New Public Management (NPM). NPM emerged in the 1980's in Europe due to demands for an inadequate national administration model, especially in improving public sector performance. (Yuhertiana et al., 2021). The emergence of economic recession and revolution in the taxation sector encouraged the development of the NPM concept (Ali & Haliah, 2021). NPM begins with a management theory that explains that commercial business practices and private sector management are better than public sector business practices (Rohmah & Hariyanto, 2021).

The concept applied in NPM will encourage all leaders to step forward and innovate so that maximum results are obtained in government. NPM is hierarchical with the responsibility to implement political decisions (Liedman, 2013). It's believed that the NPM concept has become a phenomenon as part of globalization because it has very quickly influenced public management practices in various countries. Basically, public sector organizations are different from private sector organizations (Nurhidayat et al., 2023). The difference in question lies in the characteristics of the organization, because of these differences the measurement of organizational performance is also different. According to Gurendrawati et al (2024), the public sector is a form of organization where everything related to public interest and the provision of goods or services to the public is done in the form of tax payments or state revenues. In public sector organizations, the main goal is to provide optimal service for the public interest fairly and evenly and the profit motive is used for the sustainability of the organization so that it can contribute to state or regional income. The broad scope of the public sector causes its implementation to be handed over to the market with regulation and supervision by the government.

The scope of public sector organizations in each country varies, depending on their respective history and political conditions. In Indonesia, the scope of the public sector is the central government, organizations in the fields of education, health, State-Owned Enterprises (BUMN), Regional-Owned Enterprises (BUMD), and so on. The public sector performance measurement system aims to assist public managers in asserting the achievement of strategies with financial and non financial values as

measuring tools (Sugianti & Sembiring, 2024). Good performance measures not only impact the ability to improve organizational performance, but also bring positive changes within it.

With the presence of the NPM paradigm in the public sector, every public organization is required to continue to measure performance in accordance with public expectations. Such as the accountability aspect as a form of public organization accountability. In line with the development of public demands on the performance of public organizations, effective performance measurement is needed (Irtanto, 2020). Performance improvement in public sector organizations focuses on performance management (Sugianti & Sembiring, 2024). According to Hayat (2020), the determination of performance standards is used to provide the best assessment and best practices, while the determination of performance measures is a form of assessing the success or failure of an organization in achieving previously set targets and goals. This performance measurement must be explained both quantitatively and qualitatively. There have been many previous research results that explain the implementation of NPM in public sector organizations in Indonesia. The results of Dwiyanto (2011) research show that with the NPM reform, it can increase the efficiency and effectiveness of public services even though there are challenges in managerial capabilities. In line with the research of Suwarno (2010) where the implementation of NPM can increase transparency, accountability and effectiveness of public operations. This is different from research results of Hartati (2020) which revealed that the NPM concept in Indonesia has not been fully implemented due to economic conditions dominated by foreign companies. The inconsistency of previous research results is a gap in this study. This study also aims to examine more deeply the application of NPM in improving the performance of public sector organizations in Indonesia. Through analysis of previous research results, it is hoped that this study can provide more comprehensive insights regarding the application of NPM that is relevant to academics, practitioners and policy makers.

LITERATURE REVIEW

New Public Management (NPM)

New Public Management (NPM) is a public management theory where private sector management applications are considered better when compared to public sector management practices. (Mahmudi, 2015). Theoretically, the development of NPM is a government effort to address various concerns in the bureaucracy that are increasingly declining due to the implementation of conventional work patterns. Leishman et al., (1996 in Hayer, 2010) stated that NPM is a new public philosophy used as a government approach with an emphasis on transparency, performance management and accountability.

This paradigm emphasizes changes in government behavior to be more effective and efficient with the principle of Adam Smith's *The Invisible Hand*, namely reducing the role of government, opening up the role of the private sector and the government focusing more on broad public interests (Akbar, 2015). According to Hood (1991) it offers an internal change approach within the organization "*Hands-on professional management, explicit standards and measures of performance, greater emphasis*

on output control, disaggregation of units, greater competition, private sector styles of management, and discipline and parsimony in resource utilization."

According to Pino and Wiatrowski (2006 in Puspawati, 2016) the core principles of NPM are accountability, rule of law, transparency, and democratic policing. The NPM paradigm is believed to be a governance system that connects government institutional units with customers which is considered the same as the transaction linkage process that is "played" in the business world (Denhardt & Robert, 2003). Therefore, these practices are adopted by the public sector in order to improve the performance of public sector organizations such as the adoption of market mechanisms, tender competition (Compulsory Competitive Tendering-CCT), and privatization of public companies (Hughes, 1994). According to Pecar (2002 in Wardhani & Ikhsan, 2015), the implementation of NPM is a form of management reform, depoliticization of power or decentralization of authority that supports democracy.

The NPM idea is intended to eliminate the monopoly of services in government agencies, which often results in ineffective and inefficient results (Thoha, 2005). The main idea in the NPM renewal movement is to emphasize planned bureaucratic reform starting from the organization with a series of changes, including changes that focus on management aspects, restructuring of the public bureaucracy towards decentralization, use of quasi-markets, efficient use of budgets, and development of management patterns (Hughes, 1994). According to Boston (1991 in Hayer, 2010), The characteristics of NPM in the public sector are as follows:

1. Development of strategic plans related to annual organizational planning.
2. Development of performance indicators for both individuals and organizations.
3. Development and implementation of personal assessments.
4. Development and implementation of management reviews and performance evaluations.
5. Establishment of individual and organizational goals on an annual basis.
6. Implementation of the organizational planning framework.
7. Linkage between strategy and organizational goals.

Organizational Performance

Performance is a description of the level of achievement of a policy to achieve the goals, vision and mission of an organization (Mahsun, 2009). According to Mardiasmo (2009), public sector performance measurement system is a system that aims to help public managers in assessing the achievement of strategies with financial and non-financial values as measuring tools. Performance measurement as an organizational control tool is strengthened by the existence of a reward and punishment system. According to Handayani & Hudaya (2002), Basically, organizations are operated by human resources, so that organizational performance can be measured by human behavior in carrying out the roles they play in the

organization. Fitzgerald et al., (1991 dalam Fitriyani, 2014) stated that previous research in the public sector found two main categories in performance assessment, namely categories related to final results (outcomes) and those related to determining factors.

Mardiasmo (2009) also reveals that performance measurement in public sector organizations is intended to help improve government performance, as an allocation of resources and decision-making as well as a manifestation of public responsibility and improvement of institutional communication. Performance measurement is also a keyword in the NPM paradigm (Irtanto, 2020). To measure performance, there are six main indicators, namely quality, quantity, deadlines, cost efficiency, supervisors, and personal impact. (Bernadin & Russel, 2012).

Mahsun (2009) put forward several obstacles in measuring the performance of public sector organizations, namely:

1. Organizational performance cannot be assessed solely based on financial ratios because the orientation of the public sector is not profit.
2. Output in the form of services is qualitative so it is difficult to measure.
3. Input and output are not related to each other.
4. Diverse community satisfaction makes it difficult to measure public sector services.
5. All forms of its activities are not based on market forces and require other instruments to replace market mechanisms in measuring performance.

METHODOLOGY

This study uses qualitative research with descriptive analysis methods based on literature reviews obtained from previous studies. In this context, the literature review approach does not focus on collecting new data or experimental data, but rather on exploring and interpreting the results of previous studies. The data sources used in this study are secondary data obtained from various documents and literature related to New Public Management (NPM) and the performance of public sector organizations.

RESULTS AND DISCUSSION

The New Public Management (NPM) doctrine is based on the experience of government reform in several countries abroad, such as America, Europe and New Zealand, which was then marketed and implemented through World Bank policies in developing countries (Seno, 2022). On the other hand, NPM will be considered as an effort to free government management from classical administrative conservatism by incorporating private sector work steps into the government sector (Puspawati, 2016). This is in line with Osborn and Gaebler's view, NPM has changed the perspective of government work to be on par with the private sector (Denhardt & Robert, 2003). This change in perspective has become a complex matter in local governance as part of a broader strategy to overcome the limitations of local government movement (Syerina, 2022).

In Rhodes (1996)'s view the concept of governance emphasizes the need for changes in the process, methods and achievements of governance. The development of the NPM concept is also not free from criticism because it is too profit-taking oriented in government (Puspawati, 2016). Despite the shortcomings in the implementation of regional autonomy, the application of NPM in regional governments in Indonesia has had positive impacts, such as high attention to the accountability of government agency performance and early retirement policies for Civil Servants (PNS) who do not meet the qualifications as an effort to increase the efficiency and productivity of regional government performance so as to improve the quality of public services (Akbar, 2015). In Indonesia, the implementation of NPM began to receive attention in the 2000s as part of bureaucratic and governance reform efforts (Edward et al., 2024). Decentralization is one of the main principles in the implementation of NPM in Indonesia, where local governments are given greater authority in managing resources and public services according to local needs (Turner et al., 2003).

Work professionalism can be accounted for if there are performance standards to provide the best values and best practices and have performance measures to assess the success or failure of the organization in achieving performance targets based on organizational goals. All resources need to be mobilized and directed to achieve organizational targets with performance measures as an assessment in achieving results (output) and fulfillment of results (outcome). The achievement of output and outcome makes it easier for public sector organizations to separate work units to create a more efficient organization with one-stop service (Ridwan & Mus'id, 2019). Managerial performance in government must be measured as a consideration in improving the quality of decision-making and accountability to assess the results of program implementation whether they are appropriate and appropriate based on organizational goals in order to realize the government's vision and mission (Whittaker, 1993 in Indrawati, 2017).

Research on the implementation of New Public Management in public sector organizations in Indonesia shows various relevant findings. The implementation of new public management in several regions shows an increase in the efficiency and quality of public services through a more inclusive and collaborative approach, even though it has to face the challenge of resistance due to changes and lack of managerial capabilities (Dwiyanto, 2011). Research conducted by Suwarno (2010) also shows that the implementation of NPM is able to increase transparency, accountability, and effectiveness of resource expenditure and public services despite the lack of political support. Supported by research Edward et al (2024) which confirms that the NPM concept plays a significant role in increasing efficiency, effectiveness and accountability in public administration, even though it must face the challenge of resistance to change.

Other research also shows that the application of NPM with a combination of organizational culture is unable to influence improvements in public sector managerial performance (Indrawati, 2017). In line with research Dastmalchian et al., (2000); Ogbonna & Harris (2000) that there will not be one culture that fits all situations, generally a strong company will provide benefits to the company itself when the culture is matched with a positive direction and is able to quickly adapt to

environmental changes. Furthermore, Edward et al., (2024)'s research emphasizes that bureaucracy in Indonesia tends to have a hierarchical and less flexible work culture so that the success of implementing NPM requires a change in organizational culture. The same is true with research Martinaitis & Nakrošis (2009) who researched the Republic of Lithuania stated that the implementation of NPM did not run well because it was dominated by a bureaucratic culture.

Research results from Hartati (2020) also revealed that the NPM concept in Indonesia has not been fully implemented due to economic conditions dominated by foreign companies, the privatization of the public sector is difficult due to unstable market conditions, high levels of corruption, the contract system in the provision of public services triggers the emergence of corruption and politicization, and the institutional structure is still poor in function. In line with the research of Mahmudi (2015) which confirms that there are various problems in the implementation of NPM in developing countries, NPM is based on the principles of public policy and its management so that it will reduce the role of government, problems in the privatization of public companies because the market in developing countries is not yet strong, changes in bureaucratic mechanisms to market mechanisms if not done carefully will open up opportunities for corruption, problems that arise in the transfer of models in the provision of public services, especially when legal regulations and their enforcement are not strong, and difficulties in implementation due to institutional problems, weak law enforcement and human resources. Therefore, the implementation of NPM in Indonesia cannot fully develop due to differences in government policies and organizational culture.

CONCLUSION AND RECOMENDATIONS

New Public Management (NPM) is a public management theory where the assumption arises that the implementation of private sector management will be better when compared to public sector management practices. Thus, to improve public sector performance, it is necessary to apply management practices and techniques applied by the private sector to public sector organizations. Performance measurement has a positive impact on public sector organizations and is directly proportional to the implications for strengthening strategic management, such as efforts that lead to transparency and accountability, and incentives for output. However, the implementation of NPM which is expected to be able to influence the performance of public sector organizations cannot be applied perfectly in developing countries. This happens because of the limitations and the emergence of various problems in the implementation of NPM due to economic conditions dominated by foreign companies, difficult privatization of the public sector due to unstable market conditions, high levels of corruption, the contract system in the provision of public services triggers the emergence of politicization actions, and institutional structures that are still poor in function.

ADVANCED RESEARCH

In writing this article, the author realizes that there are still many shortcomings in terms of language, writing, and presentation considering the limitations of the

researcher's own knowledge and abilities. Therefore, for the perfection of this paper, the author expects constructive criticism and suggestions from various parties.

This article is also limited to the library study method, so it is hoped that further research can use quantitative methods to comprehensively test the application of new public management in the public sector.

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