

Institutional Factors in Public Sector Reform: A Theoretical Analysis

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Abstract

There is a tendency for administrative reform in developing countries experiencing has limitations or even failure. The reason is not to consider the institutional factors in carrying out administrative reforms both formal and informal institutional factors. As a result, the results of the reform are not in accordance with the situation and condition of the community and the surrounding environment. for this reason, it is necessary to include institutional factors in every reform agenda undertaken by the government. The aims of these articles are to provide description and analysis that reinforces the importance of institutional factors both formal and informal in the context of administrative reform in a country. The analysis in this article uses a qualitative descriptive method with library research technique. The articles for the analyzed are international journals with the theme of institutional factors in the context of reform in various countries. the results of this analysis are illustrate that actually related to institutional factors in the context of administrative reform, this has been widely applied in several countries. from the results of this analysis also explains that an administrative reform tends to fail if they do not consider the institutional factors formal and informal. whereas for governments or countries that consider formal or informal institutional factors in any administrative reform tend to be successful.

Keywords

Public sector reform, Institutional factors., Government

Introduction

To this day, the study of public bureaucracy has never been exhausted and always been a strategic issue in state life. Problems related to bureaucracy always arise and differ from time to time. Policy solutions generated from the past sometimes become problems in the present. This condition is inseparable from the changes, developments, and demands of the bureaucratic environment both the internal and external environment. Therefore, bureaucratic reform is an important agenda to be scheduled in order to create the effective bureaucracy that meets the demands and development of the time and environment.

Bureaucratic organizations do not exist and act in empty space, values, and norms. Bureaucracy is an organization that grow and develop in the midst of society whose developed and interrelated with the development of the community itself. Related to that, the policies regarding bureaucratic reform are taken must be based on the situation and conditions of the bureaucratic environment. Both the external and internal demands of the bureaucratic organization are the basis of reform. Historical background, culture, and beliefs of the local community where bureaucratic organizations are located are the determining variables in influencing the existence, performance and

success of bureaucratic reform. So far, there has been a tendency for bureaucratic reform to focus on organizational aspects rather than institutional or institutional environmental aspects. This assumption can be seen from the results of research conducted by Joshi (2015) in his research concluded that: Many aid interventions have failed because they did not take into account governance and institutional issues. It is now widely accepted that institutions play a critical role in poverty reduction and growth. Influential econometric evidence has been important in showing the links between institutions and growth in particular. Furthermore, a study conducted by Andrews (2013) in the Australian Journal of Cambridge Public Administration with the title "The Limits of Institutional Reform in Development: Changing Rules for Realistic Solutions". He finds a surprising reality that many institutional reforms have been sponsored by donors since the 1990s. He argues that donors do not consider the context so the solutions offered are too simple to solve institutional problems that are not well defined. The priority agenda for reform is more likely to be determined by external donors. Whereas donors should recognize the dynamic nature of the reform process, supporting several institutions of change in an institution, as connectors, connectors and motivators at different stages of the process. A result is a problem-based approach that empowers local agents to identify hybrid solutions to suppress institutional problems.

Further assumptions can be seen from the results of evaluations by multilateral and bilateral organizations sponsoring these reforms that the success achieved by developing countries in reforming is often limited. This evaluation revealed that as much as 70% of the reforms were very surprising. Their tendency is to produce new laws that are not implemented, or new budgets that are not executed, or new units and institutions that are not staffed and not funded. In short, new forms may emerge but often do not work. From the explanation above, it is illustrated that reforms carried out mainly in developing countries tend to fail. This is because one of them is lack of attention or does not take into account the issues or variables of the institutional environment related to norms, values, and culture that grow and develop in society. This institutional variable becomes important to be the foundation and must accommodate the values used and developed in bureaucratic organizations. It is important to be noted that bureaucratic reform carried out in accordance with local aspirations and values in the community.

The tendency in reforming of public organizations that only focus on internal aspects of the organization is also seen from one definition of public administration reform according to Pollitt (2000) "that public management reform consists of deliberate changes to the structures and processes of public sector organizations with the objective of getting them (in some sense) to run better ". From this definition, it can be seen that the focus of administrative reform is more on the internal aspects of the organization. Even though if we try to examine the further an organization is also a total social reality and has complex problems. Gudono (2016) for example, explains that in an organization there are quite a number of aspects of the problem such as the problem; legitimacy, culture, social norms, technology, crime, leadership, strategy, power-sharing, and so on. For this reason, more comprehensive approaches are needed to explain and resolve organizational problems well. The approach that means is an approach based on values, norms, beliefs, and culture that exists within the organization. This approach is also called the institutional approach that views the organization is formed by the institutional environment around the organization. Furthermore, the institutional approach in this organization looks at how an organization is influenced by institutionalized rules and pressure from the surrounding environment, Strang (2000). This means that the core of this perspective wants to explain that the existence of an institution will be greatly influenced by other institutions in the environment in which it lives, with more emphasis on the condition of interaction between networks and markets. The more assertive opinion was conveyed by Meyer and Scott (1983) in Donaldson (1995), who claimed that organizations are under pressure from various social forces to complete and harmonize an organizational structure. An organization must compromise and maintain the operational structure separately, because the organizational structure is not determined by the task environment situation, but is more influenced by the general situation of the community where the shape of an organization is determined by the legitimacy, effectiveness and rationality of the community.

On this basis, each organization is deemed necessary to carry out institutional reform in accordance with environmental demands and values that develop in the community. According to Grindel (1997) "Institutional reform means altering the rules of the game in which organizations and individuals make decisions and carry out activities". From this definition, it can be understood that institutional reform focuses on changing the rules of the game in an organization. Meanwhile, according to Douglass North's (1990) the definition of the institution as "the rules of the game in a form, more formally, are the humanly devised constraints that shape human interaction ... (and) structure incentives in exchange, whether political, social, and economic ". From the two opinions above we can say that the institution comes from the community in the form of values, norms, behavioural and cultural patterns that are alive and obeyed by the community, including political, social, and economic aspects. This is become the basic values in an organization in making rules in an organization that can be in the form of structures, rules, policies that function to regulate the organizational mechanisms.

Related to the reform strategy above, the actual reform of this institution or the button up or environment approach has been discussed long ago by experts. one of them as written by Grindle in his book entitled *Getting Good Government: Capacity Building in the Public Sector of Developing Country*, Grindel (1997) explains that institutional reform is one of the dimensions of the three dimensions contained in capacity development. It was further explained that capacity development consists of three dimensions namely; Human Resource Development, Organizational strengthening, Institutional reform. Institutional reform itself has a focus on institutions and systems; macrostructure. While the type of activity is in the form of; a rule of the game for economic and political regimes, political and legal change, constitutional reform. For more details, it will be presented in the table as follows:

Table 1.1: Dimensions and Focus of Capacity-Building Initiatives

Dimension	Focus	Types of Activity
Human resource development	Supply of professional and technical personnel	Training, salaries, conditions of work, recruitment
Organizational strengthening	Management system to improve the performance of specific task and functions; microstructure	Incentive system, utilization of personnel, leadership, organizational culture, communications, managerial structures
Institutional reform	Institutions and systems; macrostructure	Rules of the game for economic and political regimes, policy and legal change, constitutional reform

Source: Grindel (1997:9)

Grindle's opinion related to capacity building is an effort intended to develop a variety of strategies to improve the efficiency, effectiveness and responsiveness of government performance. Namely efficiency, in terms of time and resources, are needed to achieve an outcome; effectiveness in the form of the appropriateness of business carried out for the desired results; and responsiveness refers to how to synchronize the needs and abilities for the purpose.

Incapacity development has dimensions, focus and types of activities. Dimensions, focus and types of activities according to Grindle are:

1. Dimensions of HR development, with focus: professional personnel and technical abilities and types of activities such as training, hands-on practice, working climate conditions, and recruitment,
2. Dimensions of organizational strengthening, with focus: management procedures to improve the success of roles and functions, and types of activities such as incentive systems, personnel equipment, leadership, organizational culture, communication, managerial structure, and
3. Institutional reforms, with focus: institutional and system and macrostructure, with types of activities: economic and political rules, policy and regulatory changes, and constitutional reform.

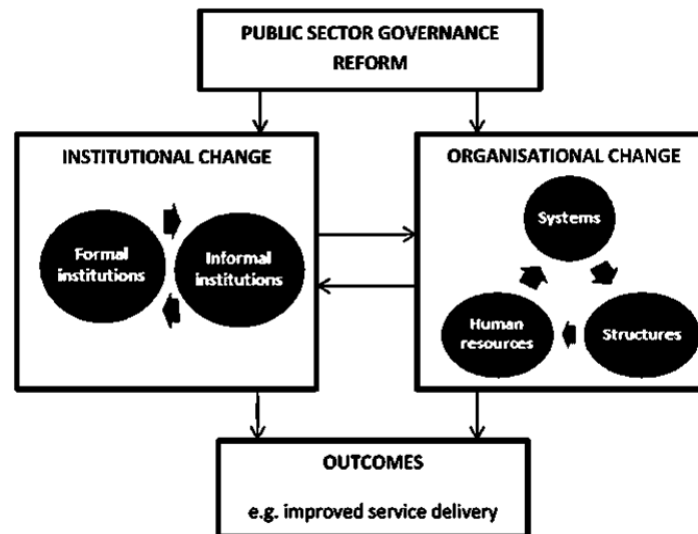
Furthermore, institutionally the organization has various dimensions such as; physical place or location, relationships and linkages with markets and other organizations, cultural norms, and ideology, and also the form of rules that are born through political and legal processes. While related to the economic field where there are rules of the game or rules of the game in business activity. According to Scott (2001), the study of institutions and organizations began to interact since the 1970s, namely with the growth of attention to the importance of organizational forms and organizational fields. Some important contributors in this linkage, namely Weber with bureaucratic theory, Parsons with cultural institutional towards the organization, Herbert Simmon who collaborated with James G. March studied the nature or characteristics of rationality in the organization, Selznick who studied the institutional theory of the organization (organization) (Scott, 2008), and Victor Nee in the context of institutional analysis that studies the relationship between formal and informal processes in the institutional environment.

According to another opinion, the study of this institution where the grouping of these institutions can vary, one of which is this institution can also be grouped into two namely formal and informal institutions. Formal institutions can be in the form of; Written law, regulations, legal agreement (legal agreement). Contract and constitution. While informal institutions can be; norms, procedures, agreements and traditions in the form of culture (Leftwich & Sen, 2010, p. 16). Meanwhile according to (North 1990) formal and informal institutions are: Institutions may consist of formal and informal constraints. Informal institutions include taboos, codes of conduct, customs, norms of behavior, conventions, and traditions, which “come from socially transmitted information and are a part of the heritage that we call culture” Formal institutions include “political (and judicial) rules, economic rules, and contracts,” which derive

from “constitutions to statute and common laws, to specific by-laws, and finally to individual contracts” and define “constraints, from general rules to particular specifications”.

The formal and informal institutions can complement each other, but can also compete with each other or even overlap with each other (Jutting et al., 2007, p. 36; Leftwich & Sen, 2010, p. 17). For more details, it will be presented in the form of a chart as follows:

Schema 2.3: Public Sector Governance Reform



Source: Joshi; adapted from DFID, 2003a, p. 12.

From the chart above it can be seen how reform of public sector institutions took place. there are two different but influencing each other names; the institutional side and the organizational side. The institutional side itself consists of formal institutions and informal institutions which both interact and influence each other. While on the other hand there are organizational elements, namely the existence of systems, structures, and human resources. From this side, the three elements of this organization also interact with each other. Then these two sides, namely the institutional side with the organizational side, also interact with each other, both of which will produce an outcome from an organization. Furthermore, the concepts that used to analyze international journals are formal and informal institutional concepts from Joshi (2003) and North (1990) which have been explained above.

2. Research Methods

The research method is used in this research is a descriptive qualitative approach with the library research technique. This technique is used to analyze articles or journals related to the theme of writing, namely institutional factors in the context of public administration reform. while the results of this analysis are presented in tables and figures and descriptive qualitative analysis.

3. Result and Discussion

From the several studies analyzed related to institutional factors which are based on informal and formal factors both from inside and outside the organization. Among them are; research conducted by (Mary K. Feeney, Wesley Kaufmann, Reggy Hooghiemstra, 2018). This study tries to examine the institutional factors that influence the red tape phenomenon in a country. Researchers examined formal and informal institutional factors. The formal factors studied are; formalization, rule enforcement effectiveness, and federalism. These formal factors originate from within

the self-government organization both at the national and local levels. While the informal factors originating from outside the organization are; corruption, political ideology, and culture. Which affects red tape in a country. Other research that also discusses institutional factors, especially informal factors originating from outside the organization, is a study conducted by S. Chatterjee, 2017. Where this study discusses political will and commitment, resources, and local innovations in home reform sick in developing countries. Meanwhile Kristian Hoelscher, 2017 conducted research by examining the problem of institutional factors both formally and informally. The formal factors originating from within government organizations are the effectiveness of the system and state justice institutions, while the informal factors originating from outside government organizations are social norms and political coalitions. Meanwhile, research conducted by Caroline Paskarina in 2017 examines institutional factors in government organizations mainly related to informal factors that exist within these government organizations, including; Normalization and Performance. The normalization is done through disciplining practices and changing the behavior of bureaucrats, technology and innovation in the bureaucracy while Performance is realized through the standardization of new procedures to work based on knowledge management to improve the expertise of the government apparatus.

The next research is conducted by Dr Kai Fürstenberg in 2016. Where the research emphasizes institutional studies using an ecological or evolutionary institutional approach. This research can be categorized as research that discusses informal institutional factors that exist outside of organizations. Then the research conducted by Giovanni Capoccia in 2016. Where in this study examined the informal institutional factors that exist outside the organization namely; cultural institutionalization and allocation of power. Research related to institutional factors was also carried out by Lihua Yang in 2015. Where in his research the researchers tried to examine institutional factors that are informal in the form of local knowledge and science on institutional changes in ecological and environmental management. Whereas Matt Andrews, in 2013 conducted research related to local factors and local agents as institutional factors that are informally originating from outside the organization which became the power in carrying out reforms.

Further research conducted by Di Cai in 2016 on the influence of institutional factors in research and development activities on SMEs. In this study, the institutional factors that are informal are organizational strategy and market environment conditions. While formal nature is government intervention. From the results of government intervention having a negative effect, financial market growth and the quality of the legal system have a positive effect on SME R&D activities. Meanwhile, other research that also examines related to institutional factors is the research conducted by Dorota Kuder in 2015. In his research, he tried to see the influence of institutional factors, especially informal and from outside of government organizations on American economic growth. The informal institutional factors originating from outside the organization include; economic system, labour market, financial market, education and research and development. All of which have a positive influence on economic growth in the United States.

Then the next research is the research conducted by Marina v. Shinkevich in 2017. This study also discussed institutional factors that are informal outside the organization that can trigger the stability of innovative development under conditions of environmental uncertainty. The factors are in the form of; reduction of transaction costs is responsible for the creation, diffusion and development of innovation and technology in the institutionalization and management of economic growth innovations. Furthermore, research conducted by Nasiru Aminu Ahmad and Rapih Mohamed in 2017. Where in his research also discussed the institutional factors that are informal namely the pressure of the business environment on the company's managerial control system. Meanwhile, the research conducted by Zühal Kurul together with Yasemin Yalta in 2017. In this study tried to examine institutional factors both formal and informal on FDI foreign investment. The formal factors include; regulatory quality, rule of law, and voice and accountability. While the informal factors are; Financial crisis, control of corruption, government effectiveness, political stability and absence of violence. Whereas the research conducted by Aruna Jha together with Vijita S. Aggrawal in 2018 focused on the issue of informal institutional factors in the form of NGO support, the wishes/hopes of local communities and integrating community expectations into corporate CSR strategies and programs.

To make it easier to understand the categorization of the institutional factors of this previous research, it can be presented in the form of the table and schema below:

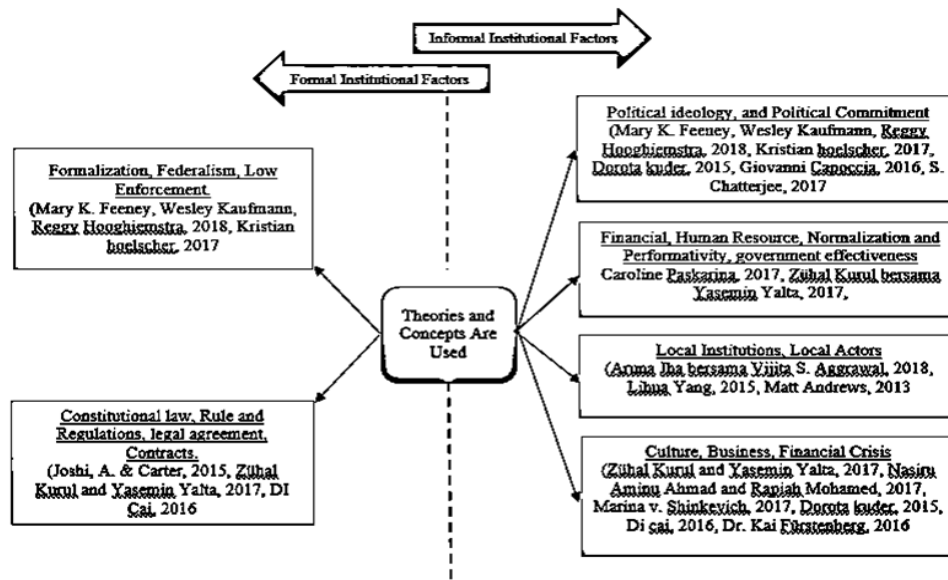
Table 1.2: Categorizing the articles based on formal and informal institutional factors

Formal institutional factors	Informal institutional factors
<ul style="list-style-type: none"> • Mary K. Feeney, Wesley Kaufmann, Reggy Hooghiemstra, 2018 <i>(formalization, rule</i> 	<ul style="list-style-type: none"> • Mary K. Feeney, Wesley Kaufmann, Reggy Hooghiemstra, 2018 <i>(corruption, political ideology, dan culture.)</i> • Kristian hoelscher, 2017 (financial, Human resource, political commitment)

<p><i>enforcement effectiveness, dan federalism)</i></p> <ul style="list-style-type: none"> • Kristian Hoelscher, 2017 (Political Institution, Democratic Consolidation, and effectiveness of system and institution of court) • DI Cai, 2016 (government intervention) • Zühal Kurul with Yasemin Yalta, 2017 (<i>regulatory quality, rule of law, and voice and accountability</i>) 	<ul style="list-style-type: none"> • S. Chatterjee, 2017 (<i>political will and commitment, human resource, and innovation</i>) • Caroline Paskarina, 2017 (Normalization dan Performance) • Dr. Kai Fürstenberg, 2016 (factor ecology) • Giovanni Capoccia, 2016 (cultural institution, and power allocation) • Lihua Yang, 2015 (local knowledge and science) • Matt Andrews, 2013 (local factors and local agents) • Dorota kuder, 2015 (economic system, labour market, financial market, education and research, and development.) • Marina v. Shinkevich, 2017 (transaction cost, accountability, innovation development and technology, and innovation management, economic development) • Nasiru Aminu Ahmad and Rapiah Mohamed, 2017 (the force of business conditions) • Zühal Kurul bersama Yasemin Yalta, 2017 (<i>financial crisis, control of corruption, government effectiveness, political stability and absence of violence</i>) • Aruna Jha bersama Vijita S. Aggrawal, 2018 (NGO Support, and expectation of local community)
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Source: Result of analysis (2020)

Schema 1.2: Mapping of the theories is used in articles



Source: Result of analysis (2020)

As explained in the scheme and table, in general, the results of research analyzed in these articles/journals above can be categorized into two categories. The first is research that focuses on formal factors while the second is informal factors. Furthermore, formal factors discussed in the study include; written law, rules/regulations, contractual agreements, and constitutions. Meanwhile related to informal factors consist of; political ideology, financial, financial crisis, business environment.

Public sector institutional reform requires reviewing the structure in a macro, how the structure of the government from the central government to the regional government, and the state administration and governance system. This is all related to the situation and conditions of a policy set and how all the elements are related. According to Joshi (2015), there are three perspectives that must be understood in the context of public sector institutional reform, namely: the reciprocal relationship between levels of government that exist within a country. The second is the relationship between the state and society or society, where this relationship is related to policymakers and service providers with the community as recipients of services. While the third is the relationship with the private sector or private sector, where the relationship between the government and the private sector will be mutually beneficial where the government guarantees a conducive business climate through regulations and security while the private sector provides both direct and indirect tax benefits to the economic growth of the community. From the perspective of this macro relationship, it really determines how reform is originally born. These macro conditions can be a motivating or triggering factor behind a reform.

Furthermore, related to the results of the study of the research journals above, it can be said that all research results show the interrelation or influence of institutional factors in the context of public sector reform, both quantitative and qualitative research. This argument shows the importance of including institutional variables in designing and carrying out public sector reform agendas so that public sector reforms will be not rejected and fail.

3.2. Conclusion

After seeing the results of the analysis of the articles/journals of the research results above, it can be concluded several conclusions, the first; It is important to consider and include institutional factors as variables that have influence in the context of public sector reform. The second, these institutional factors can be formal and informal institutional factors that exist within and outside public sector organizations. The third, more important thing is that these variables of institutional factors determine the success of a public sector reform agenda that undertaken. The ability to define and understand institutional factors will be very helpful in arranging and scheduling public sector reforms that are appropriate to the circumstances surrounding the environment so that there is no rejection or failure.

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