THE ROLE OF LEADERSHIP IN SUSTAINABLE PUBLIC SECTOR PERFORMANCE OUTCOME

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Abstract. Indonesian public sector has been implementing various reforms to enhance its accountability and transparency for performance outcomes since 1999. These reforms have similarities with the new public management style reforms introduced in many developed economies decades ago. One of the reform agendas is the implementation of the outcome-based strategic performance management. Three out of four pilot units for bureaucratic reform implemented balanced score card (BSC) as a holistic tool to achieve sustainable performance outcome. Literature in the private sector context provides evidence that leadership plays crucial roles in implementing successful changes within an organisation. However, there is a dearth of literature that explores the role of leadership in public sector especially in the context of developing countries. Drawing on transformational and strategic leadership frameworks in the midst of global finance volatility and the complexity of the public sector reform agenda, this study finds that leadership traits contributed substantially in implementing successfully the BSC framework in the Indonesian Ministry of Finance. The study also finds that the leader who was responsible for implementing the BSC had to come out from his traditional bureaucratic shells and better manage multifaceted stakeholders to achieve sustainable public sector performance outcomes.

Keywords: Leadership, Balanced Scorecard, Sustainable Performance Outcome

Introduction

After the era of the New Public Management, focus on citizens is becoming an increasingly important perspective in developing capacity of leadership to achieve the government performance outcomes (Stoker 2006, Evans 2009). The exploratory study about leadership roles and the implementation of balanced performance management system is necessary to capture to what extent several developments in the research on leadership and performance management systems. It also to capture its impact on the agenda of public sector reform and contextualizing the leadership accountability for better governance in sustaining public sector performance outcome in the 21 century. The full application of an effective leadership framework may promote leadership accountability for sustainable performance excellence in public sector. The result of the study also enhances the existing theory on leadership effectiveness; promotes balanced performance management system in public sector; and finally promotes alignment and engagement model to support high performance governance culture in public service organisation.

The paper is structured in several parts as follows: the introduction, background, rationale and context; the literature review; the leadership accountability: a conceptual framework; methodology; methods and data collections; case analysis and conclusion. The
proposed leadership accountability framework is a synthesis of the leadership roles in implementing the performance management system based on the BSC approach. It is developed and then used as a model for analysis. Finally, the ultimate research outcome for this study is to provide comprehensive analysis based on the strategic leadership framework in implementing the performance management system in the context of study.

Background, Rationale and Context

The leadership roles in public sector reform under the New Public Management paradigm places a strong emphasis on how to manage public sector performance based on the result/outcome (Hood 1995, Rose and Lawton 1999). Pollitt and Bouckaert (2004) define public sector reform as intentional changes in the structure and processes of a public sector organisation. It is necessary to enable organisations to achieve high level of performance in terms of better public services. Especially in times with high levels of volatility, uncertainty, complexity and ambiguity, the demand leadership accountability for sustainable performance outcomes has been becoming a key issue in leading and managing public sector organisation around the world.

Meanwhile, there are research findings argue that accountants can become a useful partner in the reform process in public sector especially in the process of changing objectives and promoting holistic accounting management control system for performance (Mir and Rahaman 2006, CIPFA 2011). The demand for the leadership accountability framework for performance outcome has been noted by the emergence of innovative and multidimensional performance management systems/frameworks which works reasonably well in the private sector. Now, literature findings that those systems also applicable for improving public sector performances (Rhodes et al. 2008, Michalska 2008, Brignall and Modell 2000). Those frameworks include the European Foundation for Quality Model and the Business Excellence Model (Michalska 2008), the Malcolm Baldrige National Awards Framework (MBNA 2009) and the Balanced Scorecard (Rhodes et al 2008; Kaplan & Norton, 2004; 2004a; 2001; 1996). Implementing these approaches requires strong leadership roles to better serve broad organisation’s stakeholders by focusing and aligning the whole organisation to manage high value standard financial and non-financial performance indicators (Brignall and Modell 2000).

Moreover, to enhance leadership accountability at all levels and as one of the management accounting tools for balanced control, BSC can become not only as a measurement system, but also as a strategic performance management tool to achieve competitive advantage and sustain performance excellence (Kraines 2002, Kaplan and Norton 2004a, Kaplan 2009). In the hand of leaders, BSC is a set of performance measures that gives them a fast and comprehensive view of strategic business performance (Kaplan & Norton 1996; 2001). It includes financial measures that tell the results of actions already taken and also non-financial or operational measures, such as customer satisfaction, the internal process, and the organisation’s innovation and improvement activities. Operational measures are also known as the drivers of future financial performance.

Reform in the Indonesian public sector may be defined as government’s respond to criticism of the way its bureaucracy behaves, miss-match of the policy and the personnel practices especially on recruitment and remuneration, problematic financial management; and complex relations with outside groups and all kinds of “too much” procedures (Toha,1987;Yudhiatara, 1997; Hughes, 2003; Gregory, 2003;Effendi, 2009). The Indonesian bureaucratic reform strategy essentially is an effort to eliminate of decades of deeply rooted corruption practices and to change the foundation of the government delivery service to
achieve three main organizational outcomes: organization modernization, business process improvement, and improvement on managing human resource apparatus. (Effendi, 2007).

Firstly, Indonesian Ministry of Finance (IMOF), as one of the pilot units for the Indonesian bureaucratic reform agenda, has been successfully changing its HR Department focus and practices from personnel bureaucracy towards more strategic HRM management. Moreover, it has been modernizing its public delivery offices, particularly tax, customs and treasury offices throughout Indonesia by cutting off red tapes and accelerating business processes of various public services deliveries; and improving its remuneration system simultaneously. One obvious achievement is its 2007 implementation of a strategic performance management system based the BSC approach. The former minister, Dr. Sri Mulyani Indrawati, represents a leader whose high level integrity and strong commitment to achieve better organizational outcomes. She was put high standard of discipline to managers who committed to be unfaithful and corrupt. She successfully lead the ministry to create strategy maps and identify key performance indicators based on the ultimate stakeholders’ perspective as the centre of the BSC performance management system.

As many private sector and advance public sector government units got benefit from BSC as a holistic performance management tool (Kaplan and Norton 2004a, Mathys and Thompson 2006, Umashev and Willet 2008), IMOF decided to use BSC, for its better implementation of the strategic performance management system. Various factors contributed in successful implementation of BSC, but the major role was played by the leadership in the organisation. Under such circumstances, the main objective of this study is to explore how leadership role contributed in the implementation of BSC.

**Literature Review**

There is a growing confidence that leadership is a determinant of sustainable organisational success (Draft & Pirola-Merlo 2009; Dubrin et al. 2006). However, the study on the leadership-performance relationship is not conclusive, especially on how the leadership role facilitates improvement in organisational performance (Jing & Avery 2008). Many practitioners and researchers support the notion that, at the organisational level, leadership contributes to a critical relationship between organisational effectiveness and people performance. Nevertheless, study on the extent to which leadership styles and behaviors facilitate the improvement of organisational performance is still developing (Bass & Stogdill 1990, Jing & Avery 2008).

The role of leadership in implementing change in private sector in developing world based on his comparative study by Jonash (2006) supported the strong conceptual relationship between innovations done by strategic leaders in selected companies and the organization success in terms of competitive advantages in the future. Jonash (2006) clearly shows how innovations done by the effective leadership qualities gained future organisation success in terms of shareholder return index. There are four sets of comparative companies performance of Apple vs Dell; Pepsi vs Coca Cola; Proctor and Gamble (P&G) vs Unilever and Toyota vs General Motor & Daimler Chrysler for the period 2002 to 2005 (Figure 1).
However, there are still only a limited number of studies which un-wrap the role of leadership in implementing change in the public sector, and what determines effective leadership in the public sector (Van Mart 2003). Debate still exists on what specific leadership style or paradigms which are superior in the process of achieving sustainable performance excellence in the public sector (Van Mart 2003).

Even though discussion on which leadership style is the most effective is still developing, ultimately, the strategic leadership paradigm (Draft & Pirola-Merlo 2009; Ireland & Hitt 2005) promotes effective leadership practices for sustainable good results in the 21st century (Table 1). The strategic leadership concept has also improved the previous literature discussion about leadership theories that tend to focus merely on the individual leadership perspectives (Bolden et al, 2003). The more holistic approach offered by the strategic leadership theory is needed to promote a better framework that links stakeholders’ perspectives in achieving sustainable performance in the organisation. It will also provide better perspectives and prevent organisational bias towards leadership capacity-building that may not be in line with the process of achieving improved organisational outcomes.

In line with the strategic leadership concept (Ireland & Hitt 2005) and based on a synthesis analysis on the four major roles of the strategic leaders in an organisation (Table 1), there are four major elements that should be explored to support the analysis of the leadership role in sustaining public sector performance, as follows: leadership effectiveness, the Strategic Management and HRM “fit”, the balanced performance management system, and the performance governance.
<table>
<thead>
<tr>
<th>No.</th>
<th>Strategic Leadership Characteristic</th>
<th>Strategic Leadership Roles</th>
<th>Elements of The Conceptual Framework</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Personal Mastery</td>
<td></td>
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<tr>
<td>a</td>
<td>Personal Qualities</td>
<td>Combination of both visionary and managerial type leader</td>
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<tr>
<td>b</td>
<td>Orientation</td>
<td>Marshalling long-term and short term viability of the organisation</td>
<td>Determine the Organisation’s Vision</td>
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<td>c</td>
<td>Leadership style</td>
<td>Make vision work with alignment of strategy throughout organisation</td>
<td>Leadership Effectiveness</td>
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<td>2</td>
<td>Organisational Mastery</td>
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<td>a</td>
<td>Process and Structure</td>
<td>In the paradox of leading and managing: nurturing mix of managers leaders and strategic leaders</td>
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<td>b</td>
<td>Agility</td>
<td>Flexible, adaptive to the shocking change and challenges</td>
<td>Develop Human Capital and Organisational Culture.</td>
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<td>c</td>
<td>Followership: succession</td>
<td>Embraces leadership succession</td>
<td>Strategy &amp;HRM Fit</td>
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<td>d</td>
<td>Followership: staff's empowerment</td>
<td>Need professional and knowledge workers in dynamic, chaotic situations</td>
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<td>3</td>
<td>Performance Mastery</td>
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<tr>
<td>a</td>
<td>Performance (Advantages)</td>
<td>Maintaining competitive advantage and sustaining performance excellence</td>
<td>Establish Balanced Organisational Controls</td>
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<tr>
<td>b</td>
<td>Innovation</td>
<td>Innovation is become part of the culture supported with continuous leadership capacity building</td>
<td>Performance Management System</td>
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<td>4</td>
<td>Social Mastery</td>
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<tr>
<td>a</td>
<td>Ethical &amp; Values Driven</td>
<td>Values and vision shared by all the members in the organisation</td>
<td>Promote Ethical Practices and Create Better Organisational Value Based Outcome</td>
</tr>
<tr>
<td>b.</td>
<td>Promote governance</td>
<td>Promote strategic alliance with Stakeholders and community, environment</td>
<td>Performance Governance</td>
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Table 1. Synthesizing the Conceptual Framework Based on Strategic Leadership Theory
Firstly, finding an effective leader for every organisation at the right time is not always easy. A leader in the organisation is the one who is willing to take responsibility for leading any organisational change initiatives and achieving performance excellence (Michalska 2008). The first important role of the strategic leader is to determine clearly the organisation’s vision and develop strategic direction involving the whole component of organisation (Hamel & Prahalad, 1989; Ireland & Hitt, 2005). To promote leadership effectiveness in public sector, leaders with full set of characteristics on personal, organisational, performance and social mastery are needed to lead and fully engage in the process of achieving sustainable performance outcomes (Graetz, 2006; Ireland & Hitt 2005; Van Mart 2003; see Table 1 above).

Secondly, the concept of strategic management and HRM “fit” represents concern about how to align the business strategy with the human resources strategy/practices (Shields 2007). In a further study on the development of a basic model of “best fit” strategy alignment, Shields (2007) also strongly suggests that in developing the performance management system, organisations must involve the development of an appropriate remuneration system which will correlate systematically with the process of managing business strategy, the organisational structure, and the shaping of the organisational culture.

So, by including the strategic management and HRM “fit” as part of the element of the leadership accountability framework will support leaders in managing change, achieving mission priorities (Oakland & Tanner 2008). In addition, as a result of persistent attention by leadership to making strategic planning an integral part of the strategic management process, the effective strategic planning processes will contribute to the process of achieving organisational performance outcomes in terms of public value (Oakland & Tanner 2008). Kamarck (2007) noted that the government preference to focus more on process rather than a high degree of control triggered the reform of its traditional accountability and performance management framework. This will also increase the capacity to integrate sound emergent strategy into the organisation’s more deliberative strategy making process (Oakland & Tanner 2008). Moreover, in line with the reinvigoration of the strategic leadership concept can be considered as the key success factor for any change initiatives especially on developing human capital and reshaping current organisational culture to “fit” with the organisational strategy (Ireland & Hitt, 2005; Shields, 2007).

Furthermore, Bryson (2003) demonstrated comprehensively that the use of performance management tools and techniques as a product of a sound PMS under the perspective of strategic planning and management theory will directly support organisational effectiveness by increasing the system thinking. In addition, it will indirectly support the organisational effectiveness by promoting the alignment of the strategic and operational concerns simultaneously.

As one of the best leadership tools for managing performance in both the private and the public sector (Kaplan & Norton, 2004; Estis 1998), BSC promotes the adoption of a holistic and comprehensive approach to strategic planning, performance measurement and evaluation (Graetz 2006). The strength of the BSC approach lies in its balanced focus on internal-external and financial-non financial perspectives, in its strategic design; its simplicity and the alignment of its strategic vision with operational measurements (Graetz 2006; Kaplan 1996; 2001; 2004a).

BSC, as a successful performance management system also provides a basis for leaders to better manage change or execute strategy (Sitawati 2009; Rohm nd; Martello et al. 2008). In the Indonesian context, bringing the best western-type strategic performance management framework to the Indonesian public sector suggests some caution in terms of the national/organisational culture, leadership styles and HRM practices (Rhodes et al. 2008). For instance, the Indonesian leadership focus on the longer horizon for public sector strategic
planning is still in question (Crawford & Hernawan 2002; Crawford 2003). In addition, with regards to the individual performance culture, based on the study of the existing public sector performance evaluation based on the current individual work performance indicators, nonetheless the current focus is not on promoting individual performance but rather on measuring personal loyalty (Sutiyono 2007).

According to McLeod (2006), there are currently three major areas that need to be reformed in HRM in Indonesia; firstly, the mechanistic and rigid organisational structure; secondly, the mismatch of professional skills and qualifications to the tasks; and thirdly, the weak incentives for good performance and a lack of competition for best leader candidates from outside. In terms of leadership practices, McLeod (2006) concluded that the current leadership promotion system promotes no incentive for good performance. There is no competition either from inside (below) or from outside to be able to attract the most competent figure for managerial positions in the Indonesian public sector. Moreover, to the extent that there is no competition for positions, there are also no transparent or participative rules of the game for leadership succession, such that it triggers unethical practices such as seeking promotion not by demonstrating professional competence or superior performance but by approaching superiors or by bribing officials who have authority with regards to leadership appointments (McLeod 2006).

At the local level, Turner, Imbaruddin and Sutiyono (2009) reveal major fundamental problems in the Indonesian public sector in terms of a very complex reward system and the highly bureaucratic personnel policy held by central agencies as well as very low remuneration, especially for senior officials. In terms of individual performance appraisal, Turner et al. (2009) also argued that local government and most of the ministries lack a disciplined formal process for individual performance evaluation.

Thirdly, a solid public sector performance management/measurement system should be developed to integrate performance information in coherence with the organisational strategy (Kaplan & Norton, 1996; 2001; Niven, 2003; Bouchaert & Halligan, 2008). It is the leadership role in the public sector reform under the New Public Management paradigm that places a strong emphasis on how to lead and manage public sector performance based on the result/outcome by establishing balanced organisational controls to promote excellence on performance (Hood, 1995; Ireland & Hitt, 2005; Rose & Lawton, 1999).

With regard to the potential use of the BSC approach in the public organisation, more attention needs to be paid to the current dynamic of the BSC. As an approach that previously only served leaders in an organisation as a performance measurement system (Kaplan & Norton 1996) and then as strategic performance management system tool (Kaplan & Norton 2001), currently the BSC approach seems capable to serve as the organisation’s total strategy management tool (Kaplan & Norton 2004). With a focused and persistent leadership to maintain and improve the performance outcome achieved, the BSC approach can lead public sector institutions to a sustained culture of quality and improve organisational performance (Mathys and Thompson 2006). For example, based on their recent study from the implementation of the BSC approach in two public services in the US (Postal Service and the Defense Finance and Accounting Service), dramatic improvements were observed in the performances of both organisations as a result of the process that successfully transform led to a fact-based performance improvement culture (Mathys and Thompson 2006).

Another study on the implementation of the BSC in the Australian government department, Centrelink, found that the journey to introduce the new system internally consumed more than four years between 1997 and the introduction of the online BSC in 2003. The prominent notion here is that individual performance agreements should be linked to the business planning. In addition, ongoing feedback and coaching at the individual level should
take place to make sure the alignment of individual key performance indicators are updated to reflect role changes and stay focused on the organisation strategy. In addition, more care needs to be put into motivating employees, assessment and capacity-building and recognition to encourage organisational performance excellence (Centrelink, 2009; Halligan, 2008). A further case study in the Queensland Government on managing priorities based on the BSC approach, the Department of Primary Industries (2000) revealed that the change initiative has apparently increased pressure on agencies to see more holistic and broader stakeholder concerns in exercising approaches to managing its portfolio.

Furthermore, access to the leadership decision making process in the implementation of effective PMS in the public sector seems to be difficult. For instance, a recent case study of the implementation of the BSC in a multi-objectives-large government institution, which was conducted based on the perceptions of the senior level officials, has found that several factors challenge the effectiveness of the implementation of the BSC. Those factors are cascading problems which are largely due to problems in the cascading of the performance indicators, and an inflexible top-down approach to the implementation process. The study also identified communication problems in the midst of leadership change during the implementation of the BSC (Umashev & Willett 2008). Moreover, the study also revealed that leadership may face problems in the process of aligning the performance measurement system, providing proper training, empowering employees and in providing incentive programs, and maintaining good communication to support the implementation process in the organisation (Umashev & Willett 2008).

For instance, the implementation of such performance management system in the public sector, especially in Indonesia, faced great challenges in regard to leadership engagement and the commitment to cascading the organisational performance up into the individual level, particularly due to the bureaucratic leadership style and non performance based organisational culture (Rhodes et al. 2008; Sutiyono 2007; Turner et al. 2009). Moreover, several BSC projects in particular organisations in Indonesia have been regarded as ineffective due to the failure of leaders to use the BSC as a tool for continuous improvement and change management (Tjahjadi 2007).

Fourthly, the performance governance concept promotes the public sector organisation’s responsiveness to the current global issues and the dynamics of stakeholder interests. It also promotes a comprehensive and collaborative approach to the decision making process to sustain public sector performance. This ultimately leads to the enhancement of the existing performance governance system by incorporating systematically all organisation internal and external stakeholders (Bouckaert & Halligan 2008).

It should be noted that in the era of governance, NPM is limited in several ways in providing better outcomes in terms of public value (Evans 2009; Stoker 2006). For example NPM has too much focus on the customer and the market rather than on the citizen. Moreover, NPM still promotes the dominance of the public servant role, and gives less consideration to the influence of politics and deliberative public policy making (Evans 2009).

So, the new concept of creating public value then emerged and was promoted for the next public sector reform agenda by reforming governance norms, values and operational rules themes in the new millennium (Evans 2009; Stoker 2006). Governance studies in the 21st century emphasize leadership accountability and performance as the two main principles of governance (Graham et al. 2003). Leadership accountability deals with how decision making by leaders in government, the private sector and civil society is made accountable and transparent to the public and its stakeholders (Graham 2003; UNDP 1999; UNESCAP 1997). Performance principle aims to promote the responsiveness, effectiveness and efficiency of institutions in making best use of resources to produce results and serve all stakeholders (Graham 2003; UNDP 1999; UNESCAP 1997).
To improve governance, public sector leaders should also improve public service capacity for efficiency in government spending, and promote shared understanding of value for money principle of public services (Chou 2008, CIPFA 2011). Overall, the obstacles to the effective application of good governance in some countries (China, Japan, and some European countries) have been identified. The obstacles include political problems (leadership resistance or lack of political will), resource constraints and complexity problems (Evans 2009; Chou 2008; Yamamoto 2008; Ding 2005). Therefore to achieve reform in a country where the administration is not protected from political influence, leaders should aim for more structural reform in the government to improve public service capacity, efficiency and considering service standards and outcomes expected by the community (Chou 2008, CIPFA 2011).

A governance system can be understood as “a process whereby societies or organizations make their important decisions, determine whom they involve in the process and how they render account” (Graham et al. 2003). The governance system requires leadership accountability and performance as two of the five principles of good governance in the 21st century (Graham et al. 2003). This philosophy also promotes so-called ‘performance leadership’ in the public sector; encourages strong emphasis on a customer-focus strategy; adopts private sector performance management tools in the public sector; designs better budgeting, and promotes clear individual and departmental/organisational accountability (Behn 2006). Additionally, there is growing evidence that, with regard to public financial management within the UK and Australia, the public sector is now linked to the achievement of externally imposed performance targets (Propper and Wilson, 2003; Halligan 2008).

If leaders are able to maintain governance principles and stay focused on their stakeholders, it is likely that the organisation will be able to meet their expectations and achieve sustainable results (Bossert, 1997). Performance principles in a good governance context promote institutional responsiveness to the need to focus on the process to serve all stakeholders effectively and efficiently in producing results that meet the needs while making the best use of resources (Graham et al 2003).

The concept of governance in the public sector can also be associated with accountability and the responsibility for achieving better public value (Crawford & Helm 2009; Evans 2009). Embedding governance principles in performance management can also improve how organisations are directed and controlled and pays particular attention to organisational structure, management and policies (Evans 2009; Yamamoto 2008). It triggers the need to consider the enhancement of the existing leadership accountability model by engaging the process of inviting stakeholders to participate and contribute to finding the best possible answer to difficult questions.

Based on the study literature on the leadership-performance relationship, little research has been conducted to uncover the leadership-performance relationship in the process of achieving sustainable performance excellence in the public sector. Some researchers reveals some insights in the more developed countries (Umashev & Willet 2008, Halligan 2008, Mathys and Thompson 2006), but not many done under developing countries context including Indonesia. A research gap exists in current study on the relationship between the whole leadership characteristic: personal, organisational performance and social mastery with organisational performance outcomes (Table 1). So, the study on “The Role of Leadership in Sustainable Public Sector Performance Outcomes” in the IMOF is imperative to fill the gap on the current literature on leadership-performance relationship, and because of the limited empirical study on the BSC implementation in Indonesian public sector.
The Leadership Accountability: a Conceptual Framework for Performance Outcome

In order to provide criteria for designing research questions and analysis, a leadership accountability framework is developed based on the strategic leadership theory. The proposed framework contains key elements that should be explored to support the analysis of the leadership role in sustaining public sector performance, as follows: leadership effectiveness, the Strategic Management and HRM “fit”, the balanced performance management system, and the performance governance (Jing & Avery 2008; Bouckaert & Halligan 2008; Shields 2007; Sutiyono 2007; Kaplan & Norton 1996; 2004a; see Table 1).

In line with the current study literatures, synthesizing those elements represent fundamental dimensions in constructing a conceptual model for analysis so-called model of “The Leadership Accountability Framework in Sustaining Public Sector Performance Governance”. The model is centrally derived from the literature that maintains that leadership is a determinant of organisational outcomes. Nevertheless, there is still only a limited amount of research that uncovers specific leadership concept that fits with this framework in practice, or ways of supporting leaders in sustaining performance outcomes in terms of sustainable public value (Evans 2009; Halligan 2008; Jing & Avery 2008; Nutt & Backoff 1993). Therefore through an in-depth case study methodology in the IMOF, the analysis can be done to explore the role of leadership in sustaining public sector performance outcomes.

![Figure 2. The Leadership Accountability – a Conceptual Framework for Performance Outcome](image-url)
Methodology, Methods and Data Collections

The study of the IMOF reform is treated as an exploratory explanatory study on the single case of the IMOF bureaucracy reform agenda (Gerring 2007, Yin 2003). The scope of the reform in the Ministry of Finance covers 12 large and multi-objective portfolios - comparable to more than two ministerial portfolios in Australia (i.e. the Treasury and the Department of Finance and Deregulation) and comprises more than 62,000 employees in the bureaucracy. The single qualitative case study methodology is therefore ideally suited to the research project proposed.

The selection of the IMOF as the case for study was based on its readiness in terms of the bureaucratic reform process; its complexity in representing a wide range of public service institutions; and the remarkable commitment and engagement of the top leadership its commitment to implementing BSC in all units under the Ministry. In addition, due to the tacit nature of much leadership knowledge in the IMOF, it is best studied through qualitative research means.

The term ‘research method’ is a particular way or technique for approaching a research question. A range of methods are used under qualitative methodology, such as participant observation, in-depth interviews, focus groups and collection of organisational records, participants’ diaries and all possible data and collection of images (Carter et al. 2007; Blackman et al. 2005).

This study involves explanatory analysis based on semi-structured interviews with the elites and key staff in the strategy management office across 12 units under the IMOF portfolios. The study also involves descriptive analysis, utilising three main methods of...
document analysis of the leadership role in the implementation of BSC, observation during the process of implementation of the BSC in the Ministry and documents/data during 2006 - 2009. In addition, in-depth interviews of key staff representing a member of a working team who responsible to manage the performance data and reporting in all Echelons I (portfolios) under the ministry. This engagement aims to gather comprehensive perspective in regards to the whole process of leading and managing performance and bureaucratic reform in the ministry.

This study will not rely on the use of statistics as criteria for interpreting the study’s findings. Instead, a different strategy will be developed i.e. by identifying and addressing rival explanations for the findings. The challenge is to specify important rivals as part of the case study’s research design work (Yin 2003). Considering the implementation of the BSC as part of the reform agenda in the IMOF as an attempt by the current leadership to initiate successful organisational change, so the rival theory of this proposition will also be exploring the probability of failure in realising organisational change/reform.

Case Analysis

The bureaucratic reform program in the IMOF officially has been initiated based on the Minister Decision No. 30/KMK.01/2007 about IMOF Bureaucratic Reform and also the starting point of the implementation of IMOF performance management based on the balanced scorecard (BSC) to improve performance, public service delivery and good governance. The BSC development process in the IMOF can be described first of all by the leadership process of revisiting and redefining IMOF vision, mission and strategy: secondly, the ministry entered into process of translating strategy into objectives and activities in terms of key performance indicators, target and trajectories as a base for allocating resources, budget and monitoring the result/performance outcome.

BSC is used as a leadership tool to better translate IMOF vision and mission into strategic objectives and presented in a strategy maps. Strategic objectives are the main ingredients of the IMOF BSC strategy maps, which based on it then the measurement and target were created. Furthermore, activities are then initiated to achieve the targets. Finally, the allocation of resources can be made to perform activities and achieve the targeted output/outcomes. All trajectories and result in the implementation stages will be reported and monitored for a feedback towards strategies that had been developed. IMOF-wide strategy maps were cascaded down to all levels in every unit under the IMOF. A set of IMOF BSCstrategy at the top level is labeled as the IMOF-Wide strategy map and at the level Echelon I, it is called an IMOF-One strategy map and at the level Echelon II, it is called an IMOF-Two strategy map respectively.

The implementation of the BSC in IMOF can also be regarded as an expose on how leadership in coping with volatility in global finances during 2007-2009 at the same time the ministry had to manage the complexity of the public sector reform agenda. Three out of the four pilots for the Indonesian bureaucratic reform program implements BSC as a leaders’ initiative to install the new strategic performance management tool in public sector reform. With 12 Echelons I (portfolios under the minister) including major directorates for tax, treasury, budget and customs, IMOF is leading the implementation of the reform in terms of leadership commitment and support. The implementation of BSC in the public sector, especially in Indonesia, faced great challenges in terms of leadership engagement and commitment, particularly with regards to the leadership style and bureaucratic culture at the national and organizational levels. However, the implementation of BSC in the IMOF during 2006-2009 has shown some promising results.
To provide an analysis of the issues based on the leadership perspectives on the achievements of sustainable performance outcomes in the midst of the global challenges during 2006-2009, the proposed leadership accountability framework, as a result of the literature review, is used as a conceptual framework for the analysis on how does the leadership role and performance management system based on the BSC influence the public sector performance. To some extent, the Indonesian bureaucratic reform objectives to improve government delivery services, performance and sustain governance have been achieved through three effective leadership strategies in developing office modernisation, business process improvement, and improvement in the human resource apparatus management. The BSC system has been contribute in providing balanced perspectives in planning and evaluating organisation performance. However, in coping with the continuous effort to eliminate decades of deeply-rooted culture of corruption, the existing performance management system needed to be upgraded to the higher stage by developing the performance governance system in the ministry. Overall, the following analysis exposes how the business type of leadership framework derived from the extensive used of BSC approach assisting the leaders in promoting change and innovation in IMOF strategic performance planning and evaluation in the midst of the Indonesian bureaucratic culture.

Leadership Effectiveness: Clear Vision vs Rule Based Bureaucracy

What can be learned from the leadership-performance management in the IMOF reform agenda is basically the effusion of an innovative leader in promoting leadership effectiveness by clearly defining the direction for the organisation to achieve its objectives in the long term and short term period and in imposing an innovative strategic performance governance system based on the BSC approach. In terms of achieving the targeted result, based on the findings, during the 2007-2009 there is a clear result in reforming IMOF business process by eradicating systemic corruption in practice especially in the DG Tax and DG customs (the biggest directorate generals in the IMOF).

Reform in the IMOF has been proven by the significant role of change enactors in forms of leadership effectiveness initiated by the era of three high calibre ministers: Dr. Boediono (2000-2004), Dr. Sri Mulyani Indrawati (2005-2010), and Mr. Agus Martowardjo (2010-current) and all the committed echelons in the ministry. An interview with several echelons I in the IMO revealed that:

Under the former minister Dr. Boediono, IMOF leadership clearly initiated the modernisation of the Indonesian tax office in 2002 and designed the reform on the public financial management in 2003/2004 by the enactment of the law on the state public finance; the law on audit of the state public finance; and the law on state treasury management.

The comparative analysis shown on the Table 3 clearly reflects an evolution of three types of leadership styles needed in the several phases of the reform process initiated by leader in the IMOF. Arguably, the change in the IMOF leadership perceived by respondents as also the process of change needed in the leadership styles from the managerial type, changing to the transformational style, and currently moving towards the strategic leadership style in the ministry.
<table>
<thead>
<tr>
<th>No.</th>
<th>Dimension</th>
<th>Managerial Leadership</th>
<th>Visionary (Transformational) Leadership</th>
<th>Strategic Leadership</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>Personal Mastery</td>
<td>Relates people according to roles and decision making process</td>
<td>Proactive, creative, innovative and idea generators; influence the thinking process of the organisation and its people</td>
<td>Make vision work with alignment of strategy throughout organisation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>With too much focus on formal roles and structure, the leader can be too mechanistic</td>
<td>With innovative mind leaders should be aware of influence that may beyond his/her territory</td>
<td>To have balanced perspectives in mind is difficult</td>
</tr>
<tr>
<td>b.</td>
<td>Organisational (process) Mastery</td>
<td>Rule bound, processed based structure</td>
<td>Not constrained by the present structure, systems or process or people</td>
<td>In the paradox of leading and managing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The managerial leader tend to be too bureaucratic</td>
<td>The visionary leader is willing to take risk and breach formal legacy for better purpose</td>
<td>This type of leader is capable to balance the role as manager and leader</td>
</tr>
<tr>
<td>c.</td>
<td>Performance Mastery</td>
<td>Excellence on managing an organisation</td>
<td>Well equipped to propel supernormal growth; innovative</td>
<td>Sustaining performance excellence</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Too much reliance in managing process can make leaders less innovative</td>
<td>Transformational leaders might form an exhaustive bureaucracy to achieve superior performances</td>
<td>More focus on developing performance culture</td>
</tr>
<tr>
<td>d.</td>
<td>Stakeholder Relations</td>
<td>Hierarchical relationship with stakeholder</td>
<td>Adequate focus on stakeholders perspectives</td>
<td>Promote strategic alliance with Stakeholders and community, environment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Managerial leaders focus on building strong internal relationship</td>
<td>Sometimes visionary leaders can be too much inclusive</td>
<td>Sharing same values and vision by all the members in the organisation and with all stakeholders is almost impossible task</td>
</tr>
</tbody>
</table>

Source: Analysis of the Leadership IMOF during the reform process – see Table 1

Table 3. Analysis of the MOF Leadership Qualities
The analysis is based on the qualities of the leaders to cope with leadership and management issues in four general qualities: personal mastery (personal qualities, orientation and style), organisational mastery (process and structure, agility and followership), and performance mastery (performance and innovation), and social mastery (ethics and value driven and governance). The strategic leader shows both visionary (transformational) and managerial (transactional) types of leader’s personality. They inspire people with big dreams and a vision for the future and exhibit managerial capability. They marshal the long-term and the short term viability of the organisation and capable of aligning the vision with nurturing organisational competencies. Strategic leader qualities are superior compare to other leadership paradigms in exemplifying organisational mastery qualities. Strategic leaders are not constrained by the current structure, systems or process and people, and are capable of initiating breakthrough in the rule-bound or processed-based structure, agile and adaptive to the shocking changes and challenges, and well-equipped to achieve performance excellence. Strategic leaders are also capable of initiating and facilitating innovation and producing superior growth. In terms of followership, strategic leaders are superior in nurturing leadership qualities among all the members of the organisation, and in making sure that shared vision and values drive professional actions and shared commitments to realise the vision in dynamic or even chaotic situations.

From the interview, regarding the first phase of reform one of echelon I who involved in the Indonesian tax administration reform summarized that:

During 2002-2004, the ministry elegantly led and managed the process of changing of the law of Indonesian public financial management, treasury and audit in public financial management: the minister strongly directed the reform, the Director General gave the green light and the selected and committed echelon II and III at the lower level introduced massive change in modernising taxation administration and services based on the pilot project, nurtured it and run the large tax offices.

According to the former Indonesian Minister of Finance, Dr. Sri Mulyani Indrawati (2008), who led the bureaucratic reform process (the second phase of reform), the expectation is that the bureaucratic reform process in the IMOF will ultimately provide a range of benefits that go beyond just having more satisfied and better rewarded staff. The IMOF should reduce the level of corruption in government, provide better services for stakeholders, decentralise the authority, make the organisation more transparent and accountable, and result in more efficient, effective and productive government (Indrawati, 2008).

In terms of leadership vision and support, most Key Performance Indicators (KPI) managers in the IMOF considered the leadership roles in improving performance to be quite strong. One of the KPI Managers in the IMOF commented:

In the midst of the Indonesian paternalistic culture, the IMOF leadership role is a highly significant (more than 70%) factor in improving organisational performance. In the early stages of implementing the BSC, a top down approach is imposed to enable performance to be measured quantitatively. In the past, it was difficult to measure performance outcomes, but now all units under the Ministry have defined the unit’s key performance indicators and measured its target achievements quarterly and reported to the Minister’s board meeting.

Early in her appointment as the Minister, knowing that there were embedded cultural issues in terms of the IMOF leadership bureaucracy; Dr. Sri Mulyani Indrawati committed to become the champion of the BSC implementation and developed the Minister’s strategic leadership and delivery unit, Pushaka (Pusat Analisis and Harmonisasi Kebijakan) in November 2006. One of the deputy directors of Pushaka commented:
Pushaka enhanced and promoted better governance in managing the Minister’s meeting and the private office’s functions, and developed the Minister’s delivery unit and strategy management office. As part of its main tasks, Pushaka provided leadership support in delivering major changes in strategic planning and aligning leadership practices in term of speeding up leadership communication and coordination, better monthly board meeting management to promote a cohesive and participative decision-making process in the Ministry top level meetings. It also involves the use of advanced information technology to monitor the implementation of the Minister’s decisions and support responsive accountability and communication with stakeholders.

The IMOF reform agenda is quite clear. Two of the prominent agenda items, reforming the national budgeting process and IMOF bureaucratic reform have been initiated. In the battle to reform existing Indonesian budget processes, the minister remainds vigilant in regard to fiscal resilience and sustainability. However, the rule-based bureaucracy and hierarchy seem to be a real handicap for leaders in developing or adjusting necessary roles in the bureaucracy. Practically, the leadership succession laws and regulations are too rigid and fail to provide enough power for the leaders in an agency or department to hire competent managers/staff or fire incompetent managers/staff if necessary for their own organisation. One echelon I in the IMOF indicated:

We currently have difficulties in getting rid of employees or middle level managers with very low performance and very low standards in terms of behavior; for example, We don’t have a final solution how to get rid of many incompetent employees that has been identified by the reform agenda.

Another director general (echelon I) in the IMOF who was interviewed commented:

“We found that the Indonesian bureaucracy apparatus system is too rigid, the same structural leadership positions/patterns are designed for all ministries. For example one directorate will only have a certain level or maximum number of divisions and for a division there must be a maximum level of sub divisions. We don’t have flexibility in designing or redesigning our current leadership structure to better manage our public services”.

*Strategic HRM “fit”: Performance Strategy vs Loyalty/Control Strategy*

In terms of leadership role in the human resource management, Indonesian bureaucracy still inherited and widely practice loyalty based/control strategy rather than performance based strategy. For instance, the strategic management and HRM practices in the Indonesian public sector, the leadership focus for the longer performance horizon for the public sector strategic planning is still in question (G. Crawford, 2003; G. Crawford & Hermawan, 2002). However, the top-down approach of the implementation of the BSC in the IMOF introduced the reform in terms of performance based strategy in practices. This is an innovative agenda in terms of strategic management and HRM practices in the IMOF. In fact, as a performance leadership tool, BSC promotes better strategy for improving public service and performance. Regarding the importance of leadership influence in the strategic management, one prominent director general maintained that “*If you fail to plan then you plan to fail*”. In addition, most of the key performance managers as prime movers of the BSC implementation at the middle level perceived that:

The BSC offers a basis for leaders to better manage change or execute strategy in the IMOF. Not to mention that in the early stages of the implementation, with professional facilitators from reputable consultants, all echelon Is and the Minister had a series of meetings to design the Ministry strategy map as the first step in the development of a strategic performance management framework in the IMOF.

With regard to the national laws and regulations Indonesian Human Resource Management, the fact seems to confirm Mc Leod (2006) who observed that the current
leadership promotion system promotes no incentive for good performance. In addition, in opposite direction to implement performance based culture, there is a multi-based remuneration policy. In the Indonesian public sector, the very complex reward system and the highly bureaucratic personnel policy held by cultural agencies are perceived as fundamental problems, as well as low remuneration especially for senior officials. According to an echelon I interviewed in the IMOF:

A multi based remuneration dilemma exists. Units may create other source of income in addition to their current salary budget. Moreover, it is common practice to get extra remuneration from allocating budget to provide honorarium for staff. In addition it is possible to appoint senior public sector officials as a state-owned company’ commissioner which according to the some people it may result in potential conflict of interest and increasing problematic issues in salary iniquity among echelons in the IMOF.

And in terms of individual performance appraisal, local government and most ministries lack a formal discipline process for individual performance evaluation, and there is no reward based on performance in practice. The salary system then has weakened the motivation to perform well in the government’s offices and lowered the productivity of many competent civil servants (Turner et al., 2009).

One echelon I interviewed commented:

The current performance management system needs to be broken down to the personal level. Performance indicators should be cascaded down to the lowest level of the managerial structure or at the individual level. Currently, I don’t have an objective tool to make a decision based on individual performance.

In response to these strategic management and HRM issues, under the reform program, the IMOF has applied a pilot remuneration package, based on the 27 grades of all the positions in the ministry (as a result of professional job analysis done by consultant). Basically, this improves the lowest salary of the positions in the Ministry by more than 100% (from IDR 760,500 to IDR 1,330,000) and improves the remuneration for the highest position in the Ministry by more than 5 times (from IDR 5,500,000 to IDR 46,950,000). This initiative has been approved by the Indonesian House Representative as a model for a remuneration package which will later be applied to all ministries in Indonesia under the bureaucratic reform program (IMOF, 2008a, 2008b).

In addition, the Ministry has also strengthened its HR management, developed an assessment centre, and encouraged competition to fill vacancies by advertising them internally rather than continuing to rely on promotion by seniority. In addition, it has improved communication and coordination within directorates/agencies under the Minister’s portfolio. The Ministry has also initiated the appointment of a special “chief officer” in the structural position known as “Plt” (Pelaksana Tugas – acting leader). This was a breakthrough policy as prescribed in the old bureaucracy and by the endorsement of minister regulation number 117/PMK.01/2009 regarding the Appointment of Chief Officer in the Structural post in the Ministry of Finance. It is now possible to accelerate the appointment of young and competent officials to hold the leadership role in the IMOF bureaucracy based on their competencies and performance. Another important initiative was an attempt to match remuneration to skill requirements and responsibilities, and to align the pay structure more closely with that of in the private sector.

To make structural alignments with regard to the agenda of modernising its major offices, especially tax, customs and treasury offices throughout Indonesia, the IMOF leadership was successful in accelerating and improving the management of its business processes. The
Ministry published clear improvement in more than 35 initiatives in 2007 and many more in 2008 on cutting the administration processes for delivering key public services. Examples include acceleration of the Tax File Number registration from 3 working days to 1 working day only; the tax appeals procedure from 12 months to 9 months; and refunds for custom duties from no specific time to a maximum in 30 days (Budiarso, 2010).

**Performance Management System: BSC vs IT & Competency issues**

Eventually, the BSC has served as the strategic performance management system for the IMOF. The implementation of reform in 2007, especially on the strategic performance management system in the IMOF based on the BSC, was enabled by introducing massive training and agency capacity building to define better strategic mission, vision and strategy objectives as mandated by the reform of state financial management law since 2003/2004.

At the end of 2007, the development and implementation of the BSC to promote sound strategic-bureaucratic performance management and governance was enforced by the appointment of several key performance managers to act as liaison officers in every echelon I in the Ministry. It was their job to work together to run another reform initiative which took in place as part of the public financial management reform. Pushaka supports quarterly senior-level meeting that directly led by the minister to do high level observation and evaluation of the current performance and achievement of the ministerial strategic outcomes.

In line with previous studies (Rhodes et al., 2008; Sutiyono, 2007; Turner et al., 2009; Umashev & Willett, 2008), The implementation BSC in the IMOFposed great challenges to the leadership engagement and commitment to cascading the BSC up into the individual level, especially with regards to leadership style and national/organisational culture. In fact, the recent development of the BSC implementation was evident from the signing of the key performance indicators contract with all 12 Echelon Is for the first time in early 2008. The former Minister, Dr. Sri Mulyani Indrawati stated to the board meeting as follows:

> What the ministry has done so far basically was a milestone and achievement for such a big institution with 62,000 employees and several portfolios including treasury, taxation, budgeting and fiscal balance, customs, capital market oversight and state asset management. Another echelon I in the IMOF confirmed that the current performance management system can be used to improve organisational performance, commenting:

> Apparently, there is growing concern in the quarterly performance meetings of the minister and all Echelon I under the IMOF. People are getting serious about paying attention to missing the organisational performance target. Awareness of performance improvement is also increasing.

> However, the development of the organisational performance information management system and infrastructure in all 12 IMOF portfolios is not conclusive. An IT special expert of the Indonesian Minister of Finance who was interviewed noted:

> Several subsystems exist in the IMOF performance information system. Among those sub-systems are the treasury information system, the tax and customs information system, the budget information system and the BSC information system. Unfortunately these systems potentially create silos in the management of the IT infrastructure and policies in the Ministry. This has become top priority to be solved in the IMOF over the last 5 years.

**Performance Governance: Deliberative Leaders vs Silo Bureaucrats**

In fact, the strategic leadership practice in the IMOF has become well known as a good example of driving reform in the Indonesian bureaucracy. This was apparent in the way the
IMOF leadership committed to total concern for the promotion of governance and sound practices in the national bureaucracy. In terms of public financial management, Indonesian economic reform leads to its clear performance. Based on comparative study by the independent researcher in 2007, 2008, and 2009, the Ministry of Finance reform was gaining significant progress across the year based on customer satisfaction. This was counted on average per unit under the Ministry portfolio and throughout the major cities in Indonesia. Overall, this reflects levels of more than 74% in 2008 and more than 71% in 2009 in terms of public confidence and satisfaction with the bureaucratic reform outcomes. It seems that the pilot of Indonesian bureaucratic reform progress in the Ministry of Finance 2007-2009 is on the right track. Its preliminary successful bureaucracy reform apparently indicated by the cutting red tape, systems move towards accountability for achieving results, putting customers first, and empowering public service to get results.

In 2010, the newly appointed minister, Mr. Agus Martowardoyo has endorsed further institutional reform and organisation culture transformation in the IMOF leading to more accountable and better deliberative performance governance practices in the bureaucracy. One among other agenda is the continuation process of cascading the organisational performance and into the individual level as it is targeted to be fully implemented in the next two years. During the interview he emphasized:

Performance management in the IMOF is based on the holding type of accountability system. However the current performance achievement is still limited due to the centralistic decision making process. In practice, less coordination between directorate generals/units under the Minister is apparent. The holding type system in the IMOF probably is not the ideal for the Ministry performance management. To supervise this big organisation, there is a need to enhance the existing risk management, HRM, management of information and technology infrastructure. Introducing the concept of the entire IMOF for a better decision making process with respect to the stakeholders is still a big challenge for the IMOF.

Additional attempts to promote performance based rewards and the strengthening of HR management should be initiated in line with the effort to enhance internal control and risk management and integrated information technology to improve IMOF capability to focus on broaden stakeholders and sustain the Ministry’s performance governance outcomes. Moreover, reforming the less integrated leadership practices among agencies in the bureaucracy seems to become the continuing challenge for the Indonesian public sector. It seems that more strategic leaders are needed to sustain reform in the IMOF and all Indonesian government agencies. The Minister directly observed that:

There are apparent silo bureaucrats between echelons under the IMOF and government formed a weak coordination among several government agencies within which the IMOF should take active coordinating roles as evidenced by the failure of the Public-Private-Partnership for infrastructure project in Indonesia.

In linking leadership effort with the corruption eradication in Indonesia, the ranking of corruption perception index that representing international perspective towards leadership effort of the country to eradicate corruption showed that Indonesia index of performance has been increasing from 2.3 in 2007 to 2.8 in 2010. The success particularly noted by the media as follows:

“Bold reform in the tax and custom administration and the ability of Corruption Eradication Commission to bring forward high profile cases have recently bolstered the perception that corruption is being addressed more aggressively…”(Transparency International 2008)
In summary, the following refined leadership accountability framework basically answers the research question on how IMOF leaders frame the roles of leadership and performance management system in sustaining public sector performance governance and outcome. This updated model is developed based on findings perceived by IMOF leaders that leadership is the key determinant for superior organisational performance outcome. Moreover, the relationship is strengthened by four main key enabler elements: leader’s clear vision & support, performance based strategy, balanced performance management system; and deliberative leadership practices. On the other hand there are four continuous challenges to sustaining organisational performance outcomes in terms of rule based bureaucracy and hierarchy; a loyalty/control based HRM, IT and competency issues in implementing BSC; and silos bureaucrats in the midst of the deliberative leadership practices. To cope with those issues and to excel in delivering public services in the 21 century, more strategic leaders needed to be installed in the bureaucracy.

Conclusion

Literature on leadership indicates much of offered theory focuses on effective leadership either at individual or organizational level. Little stress is positioned on the whole system result, and less concern is put on both leader/manager and performance. The conceptual framework developed and discussed addresses this inadequacy, presenting an integrative perspective of leadership that focuses on leadership process on both people and performance. In the era VUCA (volatility, uncertainty, complexity and ambiguity) and in the midst of the reform agenda, leaders in public sector organisations need to practice an effective leadership framework in implementing balanced performance management system to lead organisations to achieve sustainable performance outcomes. Findings from the application of the strategic leadership style in implementing a business type of strategic performance management system based on the BSC, indicate that with strong personal, organisational, performance and social mastery, public sector leaders in the IMOF are capable of leading and promoting viable strategic intentions to reform the bureaucracy and achieve superior performance. In addition, it is also an expose of gaining benefit from the implementation of the advance management control system like BSC in the process of reforming the bureaucratic/mechanistic culture in public sector.

The application of the refined Leadership Accountability Framework in the IMOF (Figure 3) provide awareness about leadership challenges in era of VUCA and at the same time promote leadership focus towards effective leadership practices, strategic management and HRM fitness and balanced performance management system and control. Moreover, it also promotes sound performance governance for the organisation to achieve superior performance in terms of gaining public value and sustainable performance improvement.

References


