

Balancing financial autonomy and control in agencification

Issues emerging from the Indonesian higher education

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Abstract

Purpose – The purpose of this paper is to explore the practices of financial autonomy and control the emerging issue of agencification in the higher education sector.

Design/methodology/approach – The practices are investigated using case studies from seven semi-autonomous state universities in Indonesia. The data were collected through semi-structured interviews with 17 respondents including university officials, policymakers, and experts. The interview results were analysed using an inductive-deductive approach.

Findings – This research highlights an unstable balance between financial autonomy and control practices in the universities. Autonomy supports agencification mainly by simplifying financial procedures and control is seen by university managers to be overemphasised compared to in the other state universities. Despite successes in introducing a business-like atmosphere within bureaucratic universities, questions about balancing financial autonomy and control remain.

Research limitations/implications – The small number of cases implies limited generalisability. The two characteristics used, size and parent ministries do not represent all university variabilities.

Practical implications – Agencification has become a key reform practice for state universities. Rather than using a “one size fits all” approach, the government needs a repertoire of models for these institutions.

Originality/value – This study provides empirical evidence of agencification in the higher education sector with an emphasis on the financial dimension of autonomy and control in a developing country setting.

Keywords Control, Autonomy, Indonesia, Higher education, Agencification

Paper type Research paper

Introduction

The delegation of tasks from government ministries to “arm’s length” agencies has been a growing phenomenon driven by new public management (NPM) doctrines. The NPM discourse proposes a separation between policy making or “political” tasks and policy implementation or “administrative” tasks (Trosa, 1994) and the introduction of business management techniques into these agencies (Hood, 1991). Therefore, governments across continents have delegated administrative tasks to semi-autonomous agencies, in a process of so-called “agencification” (Pollitt and Talbot, 2004).

Agencification fever has been accompanied by a rapidly growing body of scholarly literature on agency autonomy and control. Much of the recent literature on these aspects still focuses on institutional structures (Overman *et al.*, 2014) and human resources autonomy (see Bach, 2014). Several studies have discussed financial autonomy in the contexts of western countries (e.g. Barbieri *et al.*, 2013; James *et al.*, 2016; Pollitt *et al.*, 2004; Smullen, 2004; Verhoest *et al.*, 2010). However, little research has been done on the practices of financial autonomy in agencies from developing country settings. Given that the NPM doctrines are rooted in western administration assumptions (Schick, 1998), observing agencification in developing countries is essential to understand how this concept works in different politico-administrative settings (OECD, 2002). Hence, this study focuses on the financial dimension of agencification by exploring cases in Indonesia, the most rapidly growing developing country, where agencification has been adopted in the last ten years (Suwarno, 2015).



The agencification phenomenon has been taking place in Indonesia since 2005, marked by a massive adoption of semi-autonomous bodies, so-called *Badan Layanan Umum* (BLU, in English: Public Service Agencies). The government has introduced financial autonomy and control arrangements for the BLU. Details of this reform will be given below. In this country, agencification has mostly been introduced in education institutions, healthcare services, fund management, facility management, and other public service providers (Choi, 2016). Among these agencies, education institutions form the majority (42.4 per cent) and they are dominated by state universities (Ministry of Finance, 2016). The state universities (hereafter: “universities”) differ in size and operate under different parent ministries. Universities under the Ministry of Research Technology and Higher Education (MoRHE) mainly provide general academic education. Meanwhile, vocational and professional education are primarily provided by universities under the other ministries (hereafter: “Non-MoRHE”) such as the Ministry of Health. Thus, there may be considerable variability in relation to this adoption.

The working thesis of the research is that universities, which previously worked in a bureaucratic way, have been driven to adopt a business-like approach by implementing the new financial autonomy and control arrangement. Drawing on ideas from principal agent (PA) theory, this study addresses two questions: how is financial autonomy and control practised in the context of agencification? And do universities of different sizes with differing higher authorities share similar or dissimilar perceptions in regard to the practices of financial autonomy and control? It presents the variations in these practices across seven universities. From this, a key finding emerges, which is an unstable balance between financial autonomy and control practices. The autonomy does not cover the whole financial function and the steering mechanism is seen by university managers as overemphasised. The study reveals that universities of different sizes and with varying parent ministries share similar perceptions regarding these practices. A major issue that emerges is that the benefits of financial autonomy are overstated.

This paper begins by briefly describing agencification in the Indonesian context and exploring theoretical frameworks in regard to the topic. The method employed is explained thereafter. The following sections describe practices of financial autonomy and control, and emerging issues with regard to this phenomenon. A discussion in the light of the theory and concluding remarks is provided in the final section.

Agencification in Indonesia

Following the global trend, the Indonesian government has made extensive use of agencification. In the period 2005 to 2014, 680 agencies were “autonomised” at an arm’s length distance from the bureaucracy, consisting of 141 agencies in the central government and 539 agencies in the local government (see Figure 1). In terms of significance, central BLUs held assets valued at IDR377 trillion as of 2015. As for growth, their revenue increased from IDR3.7 trillion (2008) to IDR35 trillion (2015) and is projected to rise to IDR73 trillion by 2019 (Ministry of Finance, 2016).

According to the typology by Van Thiel (2012, p. 20), BLUs are a type 1 agency. They have several degrees of autonomy without a separate legal entity status. Their autonomy is focused on financial aspects, as they are exempted from general principles of the state finance regulations (The Law No. 1/2004, 2004). Compared to other government agencies, this privilege mainly includes generating own income, managing revenue, and managing loan and investment (see Table I). A framework of regulation for semi-autonomous agencies was introduced in 2005 (The Government Regulation No. 23/2005, 2005).

Meanwhile, financial control is developed through a combination of structural steering and results-based monitoring for financial matters. Structural steering is implemented by positioning agencies under the hierarchical lines of their parent ministry. This authority enables the ministry to influence agencies’ financial decisions by assigning supervisory boards and monitoring them through internal and external audit mechanisms as well as

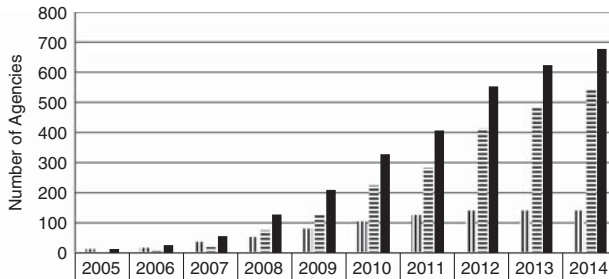


Figure 1.
Number of the semi-autonomous agencies, 2005-2014

Source: Compiled from the Ministry of Finance (2015) and Ministry of Internal Affairs (2015)

Features	Government agencies	Semi-autonomous agencies
Generating own income	Limited options Limited options for exploring self-generated sources of income, such as partnerships with third parties. Highly dependent on funding from the state budget	More options More options for expanding income-generating activities, such as wider service coverage. Less reliant on the state budget
Revenue management system	Indirect Earned revenues are remitted to the State Treasury. Agencies need to draw revenue for funding expenses	Direct Earned revenues are managed in the agencies' own account. They are directly disbursed without prior approval from the State Treasury
Loan and investment management	Not permitted Loans and investments are managed by the Ministry of Finance (MoF)	Permitted Agencies can take loans and manage investments within limits and conditions set by the MoF

Table I.
Key features of financial autonomy

Source: Author

financial reporting requirements. Results-based monitoring is applied by an *ex post* financial rewards and sanctions scheme to control agencies' performance. Table II presents a comparison of the financial control in these agencies.

Theoretical frameworks

The definition of agencification is fluid both synchronically (between locales) and diachronically (over time) (Elston, 2014, p. 474). Flinders and Smith (1999) mention that, generally, it refers to the establishment of semi-autonomous agencies. These agencies are at an arm's length distance from the hierarchy and democratic control of the parent ministries (Overman, 2016, p. 1240).

The meaning of semi-autonomous agencies (hereafter: "agencies") varies across national contexts, organisational cultures, and legal and political systems (Smullen, 2004). An agency is a permanent administrative body proposed by government actors (James, 2000) that is formally separated from a ministry or department, carries out public tasks and is staffed by

Table II.
Key features of
financial control

Features	Government agencies	Semi-autonomous agencies
Accountability structure	Single internal control Controlled by the Internal Control Unit (ICU) of the parent ministry Single external auditor Audited by the Financial Audit Boards (FAB) No independent supervision Agencies are not supervised by an independent authority	Dual internal control Controlled by the ICU of the parent ministry and the additional ICU within the agencies Dual external auditor Audited by the FAB and Public Accountant Firm Supervised by independent boards Agencies are supervised by the Boards of Supervision, a type IV board based on Van Thiel (2015, p. 324) Dual reporting (2005 to 2015) Subjected to the GAS and Financial Accounting Standards. Prepare two financial statements
Financial reporting	Single reporting Subjected to Government Accounting Standards (GAS). Prepare one financial reporting	Independent schemes Agencies are allowed to propose their own schemes for financial rewards and sanctions, as long as they are funded by their self-generated income rather than the state budget
Financial rewards and sanctions	Predetermined schemes Regulated by the government Agencies cannot propose independent schemes	

Source: Author

public servants (Trondal, 2014, p. 545). Agencies are public bodies constituted in public law (Pollitt *et al.*, 2004, p. 9), financed mainly by the state budget, with some financial flexibilities.

By “semi-autonomous,” I mean that agencies have some degree of autonomy based on the legal structures and politico-administrative conditions, and are under some degree of control by a higher authority (Verhoest *et al.*, 2010, p. 18). Agencies’ autonomy is unclear (Bouckaert and Peters, 2004, p. 23) and is constructed in different perspectives and as multi-dimensional (Bach, 2014). Therefore, Pollitt *et al.* (2004, p. 7) argue that no universal legal classification for “autonomised” public bodies exists.

In general, autonomy emphasises the level of choices that an organisation can make (Verhoest *et al.*, 2010) in managing resources through its own discretion and policies. Verhoest *et al.* (2004) mention two kinds of autonomy for agencies – policy and management autonomy. Policy autonomy refers to independent discretion in policy implementation (Bach, 2010), whereas management autonomy is the delegation of management functions to facilitate independent decision making and enable efficient behaviour (Pollitt *et al.*, 2004).

Management autonomy covers organisational (Overman and Van Thiel, 2016), human resources (Christensen *et al.*, 2008), and financial autonomy (Allix and Van Thiel, 2005). Organisational autonomy is related to some degree of flexibility with regard to shaping agencies’ own distinct organisational structure (Overman *et al.*, 2014). Human resources autonomy refers to independence in terms of recruiting, promoting, and dismissing personnel (Bach, 2014). Meanwhile, financial autonomy is described as a degree of discretionary power over agency finances (Overmans and Timm-Arnold, 2016), independent financing, and the decentralisation of financial powers among the functionaries (Gandhi, 2013).

Financial autonomy refers to the funding of an agency (De Kruijf and Van Thiel, in press), which in turn refers to its flexibility to raise financial resources and use them for agency activities (Verhoest *et al.*, 2010). Discretion includes budgeting, revenue management, accounting, and the management of assets, cash, and loans (Coe, 1989; McKinney, 1995). This autonomy also represents the extent to which financial decisions can be made in an agency. Barbieri *et al.* (2013, p. 35) mention strategic and operational financial autonomy. Strategic financial autonomy refers to the possibility of performing the same activities without having to conform to rules set by the parent ministry and without having to rely upon the parent

ministry's prior approval. Operational financial autonomy concerns the possibility of an organisation managing and retrieving financial resources (internal or external) within the rules set out by the parent ministry or upon prior approval by the parent ministry, for instance, taking out loans for investments, setting tariffs/prices for products and services, setting fees and charges, and concluding legal contracts/agreements with private sector entities.

Within the NPM paradigm, autonomy must be counterbalanced by control (Verhoest *et al.*, 2010, p. 10). Managerial autonomy enables efficient behaviour, but does not in itself induce agency managers to behave efficiently (Verhoest *et al.*, 2010, p. 7). Therefore, pressure needs to be exerted by political and administrative principals to monitor the agencies (Hood, 1991). This can be done by implementing results-based control to exert market-like pressure (OECD, 1997; Kettl, 2000).

In general, control is defined as the instruments and mechanisms that are used by a controlling actor to influence the controlled actor (Verhoest *et al.*, 2010, p. 24). Higher authorities such as ministries are the controlling actors, whereas agencies are the controlled actors. NPM doctrine also encourages a shift in the control arrangement from input-based to results-based control. Verhoest *et al.* (2010, p. 25) mention three kinds of control: structural, network-based, and financial control. Structural control is the influence of higher authorities on agencies' decisions through hierarchical lines. Network-based control refers to a social mechanism based on the cooperation networks of which the agency is a part. Finally, financial control refers to the way in which superior bodies influence agencies' decisions by using their authority in regard to financial aspects.

Financial control is commonly associated with budget allocation (e.g. Roness *et al.*, 2008; Verschuere, 2007) and budget shifting (e.g. Wynen *et al.*, 2014). However, in the Indonesian context, budget allocation is not an essential issue because the Constitution allocates 20 per cent of the state budget to the education sector (Moeliodihardjo, 2014, p. 6). Financial control is considered here to be control exerted through influencing an agency's financial decisions through hierarchical financial accountability lines (structural steering) and results-based monitoring, by developing a financial rewards and sanctions mechanism based on a performance contract. These accountability lines include financial reporting to a parent ministry and compliance monitoring by internal and external auditors as well as the board of supervision.

The arguments behind agencification have been developed from different rationales including the PA perspective (see Flinders, 2008; James and Van Thiel, 2011; Pollitt, 2004). Pollitt (2016, p. 41) reveals that PA theory (Douma and Schreuder, 1998) is widely used in the study of regulatory and executive agencies. As NPM-oriented reforms are rooted in the economic view of government, theoretically the pattern of autonomy and control within agencies is firmly grounded in PA theory (Verhoest *et al.*, 2010, pp. 7, 115).

In PA theory, the principal is an actor that represents an interest, for instance the public interest. The agent is another actor that carries out some tasks for the principal, for example providing a public service (Widmalm, 2016, p. 131). The principal delegates responsibility to the agent by providing them with autonomy in managing tasks and discretion in decision making. The PA relationship creates an "agency problem" when the agent has self-preference instead of principal interest. The solution to this problem is a control arrangement. PA theory proposes that agents will achieve a high performance under strong control to force them and when they own adequate autonomy to do so. Following the logic of this approach, financial autonomy will be valued by agency managers because more financial resources might increase their prestige and organisational power to expand their capacity (Niskanen, 1971; Migué *et al.*, 1974). The formal autonomy of agencies is a result of the prevalence of a "commitment and agency" logic, which is operationalised as delegation from the principal to the agent (Yesilkagit, 2004). Meanwhile, financial control is preferred by parent ministries to tackle information asymmetries, whereby they do not know what the agents are doing.

Agencification practices are influenced by agency-specific characteristics (Pollitt, 2004). The important determinants of autonomy and control include agency size and parent ministry (Verhoest *et al.*, 2010, pp. 46, 75). Therefore, universities of different sizes and with varying higher authorities are expected to have somewhat different practices of financial autonomy and control. Organisational size, in terms of the number of students, is a proxy for the state funding as the government provides funding based on the number of undergraduate students. However, the funding only covers some operating expenses such as electricity bills. Universities need to cover their capital expenditures such as equipment and building. The more students they have, the more additional sources of funding they need. Hence, large universities are expected to need more financial autonomy to generate their own income, managing their revenue, and taking out loans. The effects of this autonomy (i.e. the increasing own income, return on investment, and additional funding from loans) will reduce the degree of dependency on governmental funding. Meanwhile, the parent ministries distinguish between universities under the “centralised” system of the MoRHE and universities with a more “decentralised” financial system under the other ministries. As decentralisation allows for greater flexibility in decision making (Thompson *et al.*, 2002, p. 157), it is expected that the decentralised system will facilitate greater financial autonomy.

Since universities serve varying numbers of student and operate under different financial and administrative settings, it would be meaningful to analyse the information in a comparative context. Greater autonomy is expected to influence agencies’ agility and lead to changes in financial dependency. Strong financial control could be seen to correlate with a high degree of financial centralisation.

Methods

This study employs a case study approach to describe complex phenomena within their contexts (Baxter and Jack, 2008). The exploration of financial autonomy and control in universities cannot be considered without the context of agencification. It is only in these universities that the distinctive concepts of financial autonomy and control are utilised.

Case selection

The selection of the cases in this study was based on variation sampling (Given, 2008) to cover the various types of universities in Indonesia. The criteria for inclusion addressed the variations in size and parent ministry. This option enabled the study to explore how these different characteristics affect financial autonomy and control practices.

University size is represented by the number of students, and can be small (less than 10,000 students), medium (10,000-20,000 students), or large (more than 20,000 students). The parent ministries include the MoRHE and Non-MoRHE. Since the adoption needs plenty of time, a period of four-year minimum of implementation (as of mid-2016) was studied, i.e. 2008 to 2012 (see Table III).

Group	Parent ministry	Number of students (2014) ^a	Size	Starting year	University code
1	MoRHE	37,000	Large	2009	MA
		35,000	Large	2008	MB
		25,000	Large	2008	MC
		12,000	Medium	2012	MD
2	Non-MoRHE	18,000	Medium	2007	NA
		3,000	Small	2009	NB
		1,000	Small	2008	NC

Note: ^aRounded to thousands

Source: The MoF and MoRHE

Table III.
Characteristics of
selected universities

Data collection and analysis

The data collection method was interviews with university officials, policymakers, and experts to track the highlighted topic from different perspectives. The university officials included participants from the strategic and operational levels. The aim was to uncover the perceptions of senior university managers as well as operational officers, in the hope that their varying responses would complement one another. The policymakers included representatives of the Ministry of Finance (MoF). Meanwhile, the former team members of the agencification design were interviewed as the experts. They were selected based on their direct involvement in the design, policy making, and practice of agencification.

Semi-structured interviews were adopted to elicit detailed information (Silverman, 2011). All of the questions were open-ended to provide the respondents with the flexibility necessary to express their personal experiences and perceptions of the issues (Boeije, 2010). The interviewees were probed on issues relating to their perceptions of the design and current regulations of the agencies, the current practice of financial autonomy and control within universities, and the problems and challenges in adopting agencification. Table IV shows an overview of the interviews conducted for this study.

The interview transcripts were coded with regard to the research questions. Three “node” codes were assigned, namely, “financial autonomy,” “financial control,” and “Issues.” Based on an inductive-deductive coding approach (Miles and Huberman, 1994), the node codes were specified into a set of associated codes. The node codes came from the literature whereas the associated codes emerged from the data (Young *et al.*, 2016). Given the small number of interviews, the transcripts were hand-coded manually.

The interviews were conducted in *Bahasa Indonesia* and recorded with the prior permission of the interviewees. On average, the interviews lasted for 60 minutes. All English quotes in this manuscript have been translated by the author and checked by a proof-reader. Additional validation checks on the interview results were done for mere factual data, such as financial procedures, by using other sources such as administrative reports. The coding scheme employed is summarised in Table V.

Findings*Financial autonomy*

Generating own income. The BLU were reliant on the state budget. In terms of generating their own income, they had limited options based on the list of services and rates approved

University code/ position	Job description/title	Managerial level	Respondent code
MA	Head of Bureau for General Affairs and Finance	Strategic (S)	(MA1)
	Financial Reporting Supervisor	Operational (O)	(MA2)
NA	Vice Dean	S	(NA1)
	Head of Finance Department	S	(NA2)
	Head of Internal Control Unit	S	(NA3)
	Secretary of Internal Control Unit	O	(NA4)
NB	Head of Internal Control Unit	S	(NB1)
	Supervisor of Accounting and Reporting	O	(NB2)
MB	Head of Finance Department	S	(MB1)
MC	Director of Finance	S	(MC1)
MD	Head of Finance Department	S	(MD1)
NC	Supervisor of Accounting and Finance	O	(NC1)
Policymakers	Officials of the MoF	n/a	(FN1), (FN2), (FN3)
Experts	Former team members of agencification design	n/a	(EX1), (EX2)

Table IV.
Overview of
interviews

Table V.
Thematic coding
scheme employed

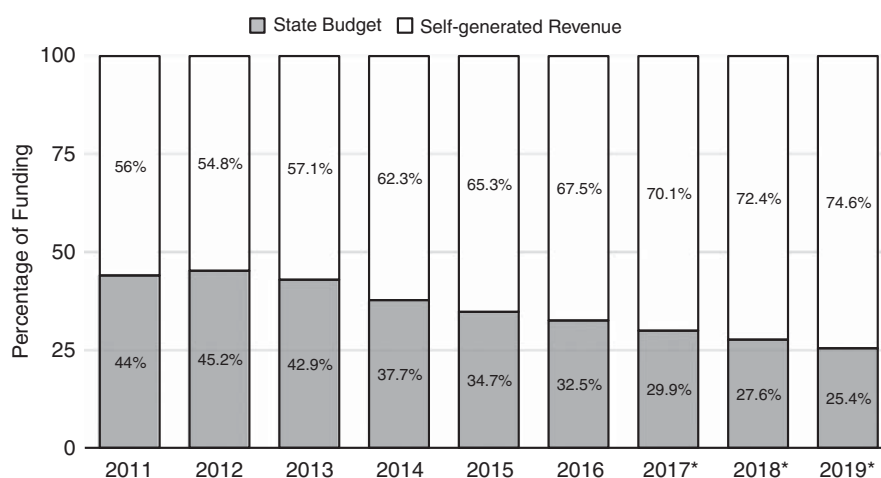
Node codes	Associated codes	Indicators
Financial autonomy	Generating own income	Is flexibility for expanding source of income beneficial?
	Revenue management system	How revenue management affects agencies' governance
Financial control	Loan and investment management	Have loan and investment management been implemented?
	Accountability structure	Role of accountability structure
	Financial reporting	The complexity in financial reporting
Issues	Financial rewards and sanctions	Have financial rewards and sanctions been developed?
	Financial benefits	Financial benefits from adopting agencification
	Ministerial responsibilities	Responsibilities for financial decision made by the agency
	Standardized procedures	Financial procedures subjected to the agencies

by the MoF. In 2011, 44 per cent of their funding came from the state budget. Agencification had reduced this dependency to 32.5 per cent by 2016 (see Figure 2).

Universities prefer a greater degree of flexibility to explore their sources of funding. According to the university managers, it is advantageous for universities to be able to develop new income-generating activities, in line with their core services. For instance, they obtain additional revenues from research grants and publishing, and other income by providing professional training, consultation, and asset management such as dormitories.

All of the respondents from Group 1 considered this autonomy beneficial and stated that it had led to significant changes in terms of generating more income. From Group 2, participants from the NB and NC shared a similar opinion, while the (NA1) considered this autonomy less beneficial due to difficulties in expanding their sources of income:

We are having difficulties developing income-generating activities due to a strong focus on delivering education as our core service. (NA1)



Note: *Forecasted

Source: Ministry of Finance (2016)

Figure 2.
Proportion of funding
in the BLU, 2011-2019

Revenue management system. The agencies use a direct revenue management system. This simplified procedure is intended to encourage them to implement business-like principles in revenue management. The agencies have experienced significant changes in regard to fund management compared to the old practices. This was particularly evident in respect to the flexibility to carry forward a cash balance across a period, improving the transparency of revenue management, and leading to a better distribution of funds among departments:

This (direct revenue management) will facilitate flexible management, encourage innovation, and build local responsibility. (EX1)

Loan and investment management. Agencies are encouraged to look for alternative sources to fund their activities. Meanwhile, the government applies complicated regulations for taking out loans. Three respondents from Groups 1 and 2 considered that the regulations are frustrating:

We have tried to develop partnerships with the banks. But the existing regulations require us to comply with complex procedures and apply for several permits to different government agencies. (NA1)

Agencification allows the agencies to invest their idle cash. Most of them invest their idle cash in short-term deposits for up to six months. According to NA1, agencies do not have other investments but time deposits due to unclear guidance on investment. However, EX2 argued that in part this is because of the limited understanding of this flexibility.

Financial control

Accountability structure. Accountability in the agencies has a complicated structure. They have two internal auditors, i.e. the Internal Control Unit of the parent ministry and the additional control unit inside each agency. They are also subject to audit by two external auditors, i.e. the Financial Audit Boards and a Public Accounting Firm. In addition, a Board of Supervision exists in the particular agencies. All of these accountability structures are embedded thoroughly in the agencies and are therefore seen by agency managers as overemphasised control.

Financial reporting. Annual financial reporting is mandatory for agencies. From 2005 to 2015, the agencies had to prepare two different financial statements, in accordance with the Government Accounting Standards and the Financial Accounting Standards. This policy was amended in 2016 due to the complexity of the dual reporting. The government decided to set a single accounting standard for the agencies by amending the existing Government Accounting Standards.

The NA and NB regularly prepare financial statements on time. The rest have problems in financial reporting due to their manual book keeping systems and the lack of an accounting system particularly for assets and costs. One of the influencing factors for financial reporting is the deadline, which provides only ten days from the end of each period for preparing the financial statements:

[...] we are not accustomed to working to a fast-paced reporting schedule. (MA2)

Financial rewards and sanctions. Universities develop a rewards or sanctions scheme based on a merit system. Financial rewards are provided when the earned revenues exceed the target, and vice versa. This autonomy motivates them to collect higher revenues.

All of the universities from Group 1 already have this scheme. In Group 2, NB is the only university that has the scheme. The NA and NC have no scheme yet due to insufficient income and their dependency on the state budget. Meanwhile, MB1 argued that this scheme is difficult to implement due to the limited amount of additional income:

University activities are limited to education and student fees are still the major revenue. Other education-related activities are rarely conducted, resulting in insignificant additional revenue. (MB1)

Issues emerging

Financial benefits. Financial-related issues were the most commonly discussed in the agencies. All of the respondents perceived that agencification deals only with financial autonomy. They proposed this adoption mainly due to financial autonomy reasons:

When people discuss the agencies, they discuss the faster financial processing instead of the improvement in service quality. Every agency seems to have this perception. (MA1)

All of the respondents considered that agencification enables more flexible financial management. They attempted to switch their governance to a semi-autonomous body that provides straightforward financial procedures. However, they stated that the autonomy is counter balanced by extensive control, which causes concern for both groups, who questioned whether the benefits of this autonomy are overstated.

Ministerial responsibilities. Apart from adopting agencification, universities have two coordinating ministries, the MoF and the parent ministry. In general, a university needs to meet several requirements prior to the adoption. When the requirements are met, the parent ministry prepares a proposal for the MoF. Based on the assessment of those requirements, the MoF decides whether or not the university can feasibly adopt this concept. These procedures imply a central role for the MoF in the adoption stages. In summary, the increasing control of the MoF, in many respects, reduces the power of the parent ministry.

Standardised procedures. All of the respondents perceived that the control mechanisms using standardised procedures have been emphasised more strongly. The agencies have to comply with cumbersome regulations and procedures similar to the other government bureaucracies. They were required to use standardised documents to report activity for equal accountability reasons. This punctual financial procedure prevented the agencies from behaving in a business-like manner:

For example, service rate adjustment is processed over a prolonged period at the MoF. Meanwhile, this adjustment is needed to respond quickly to internal and external changes. (MA2)

It became clear that the balance of financial autonomy and control in both groups of universities is dynamic and unstable. A summary of the findings is provided in Table VI.

Discussion of findings

Pollitt and Bouckaert (2004) reveal that agencification is adopted in different reform contexts including human resources and financial management. Overall, this study found that in regard to the agencification of universities, the introduction of financial autonomy and control matters to a great extent. The results provide empirical evidence that financial dimensions have a significant effect on how agencification works in practice (Pollitt *et al.*, 2004).

The findings from small size, medium and large universities highlight similarities in terms of perceptions of the practice of financial autonomy. They had similar perceptions of the degree of autonomy in generating their own income, managing revenue, taking out loans, and managing investments. These findings are different to those reported by Verhoest *et al.* (2010, p. 255), who stated that large agencies perceived themselves as having more financial autonomy than small agencies. Whilst medium and large universities under the MoRHE also perceived themselves as being excessively controlled in regard to their financial activities, this indicates that high levels of financial control are not compensated by more financial autonomy. This practice contradicts the NPM ideal-type agency model (Massey, 1995), where more control is combined with more autonomy (Laking, 2002). This is because the government develops a “one pattern for all” reform programme for universities, neglecting their size. The MoRHE control them through stricter steering arrangements in a centralised higher educational system (Logli, 2016), but do not give these universities more freedom to act.

Table VI.
Summary of findings

Thematic Codes	More (+) or Less (-) autonomy (A)/control (C)	Group 1	Group 2
<i>Financial autonomy</i>			
Generating own income	(+)A	Beneficial	Beneficial, except for NA
Revenue management system	(+)A	Leads to significant changes	Leads to significant changes
Loan and investment management	(-)A	Has not been implemented	Has not been implemented
<i>Financial control</i>			
Accountability structure	(+)C	Overemphasised controlling roles	Overemphasised controlling roles
Financial reporting	(+)C	Problem of dual reporting (as of 2015) and accounting system	Problem of dual reporting (as of 2015), no significant problem in accounting system except in the NC
Financial rewards and sanctions	(-)C	Has been developed	Not yet been developed, except in the NB
<i>Issues</i>			
Financial benefits	(+)A, (+)C	Overstated financial benefits	Overstated financial benefits
Ministerial responsibilities	(-)A, (+)C	Increasing ministerial responsibilities, shift from the MoRHE to the MoF	Increasing ministerial responsibilities, shift from the parent ministry to the MoF
Standardized procedures	(-)A, (+)C	Prevailing standardized procedures	Prevailing standardized procedures

The centralist financial setting allows more opportunities for exercising tighter control. In some extent, as I expected, this stimulates large universities to seek greater financial autonomy by shifting to a separate legal entity status (see Moeliodihardjo, 2014, p. 4).

The study further reveals that more financial autonomy contributes to independence from governmental funding. The university managers considered that greater autonomy in regard to expanding sources of income, supported by direct revenue management and faster disbursement processes, is essential for reducing their dependency on the state budget. The reason, from a financial perspective, is that agencies that generate their own income need the autonomy to use them (Verhoest *et al.*, 2004). For universities, financial aid has become the most powerful government instrument to curtail universities' autonomy (Gandhi, 2013). Therefore, the ability to obtain alternative sources of funding and being financially independent from the state budget are essential in developing financial autonomy. This autonomy needs a high degree of operational self-financing, that is, being able to cover their operating expenses by gaining their own revenues from services provided (Amerasinghe, 2005). Whilst an independent scheme is seen as a means of providing better financial rewards, this effort would oppose the objective that agencies are expected to be more efficient public service providers (e.g. Bach, 2012; Pollit *et al.*, 2001).

The interviews with university officials indicated that the complicated agency accountability structures increase the controlling role of the ICUs, BoS, and external auditors. An independent board is expected to facilitate more autonomy (Kristiansen, 2017, p. 173) as the board blurs the authority relations between agencies and ministries (Læg Reid *et al.*, 2006). However, the boards may control all of the decisions of agencies (De Winter and Dumont, 2003, p. 273). According to the officials, this leads to excessive control, which affects the actual autonomy practised by the two groups of universities. This finding

provides empirical evidence of a trend towards stricter control for agencies (Van Thiel, 2015, p. 327). The study also found that the MoF plays a dominant role in financial decision making in the agencies. This finding is consistent with the conclusion of Verhoest and colleagues (2010, p. 124), who highlight the strong position of the MoF.

The research shows that financial autonomy is restricted by uniform and detailed regulations. The university managers perceived that the existence of such autonomy-reducing regulations, as well as control mechanisms, prevents universities from pursuing their goals. Lacking autonomy at the input level might mean that adopting agencification, in the Indonesian context, does not increase efficiency in terms of resource utilisation (Riyanto, 2012). This finding supports Gandhi (2013), who contends that the overemphasised control faced by universities will lead to a perception that autonomy is only a myth. Furthermore, Vargese and Martin (2014, p. 7) argue that autonomy in the Indonesian higher education system has been less successful, partly as a result of the perception of financial uncertainty. This condition affects the benefits for universities and society (Waluyo, 2014).

With regard to the theoretical discussion, the contribution of this study is twofold. First, this research adds to the NPM ideas of agency-level pressures for convergence and similarity, i.e. that agencies with similar types of tasks, albeit of different sizes and with varying higher authorities, tend to have similar practices of autonomy and control (Verhoest *et al.*, 2010, p. 42). Despite the variations in their size and parent ministries, universities with similar tasks perceived themselves as being more controlled than before (Gains, 1999; Verhoest *et al.*, 2010, p. 255). The similarities found in these practices indicate that the NPM doctrines are relatively dominant in the higher education sector in a developing country setting. Second, this study supports the PA theory on the basis of a case study. The findings show that financial autonomy and control exercised by oversight authorities play a great role in agencification practice. This is because agencies with more autonomy would have more potential for opportunistic behaviour and information asymmetry (Wynen and Verhoest, 2016). The combination of both sides is central for investigating agencification as the autonomy granted by the principal may become less relevant if stronger control keeps being applied to agencies by various means and methods.

Agencification has become a key practice in realising the NPM inspired reforms in Indonesia. Meanwhile, the agencies' business-like behaviour has been hindered by the domination of standardised procedures. Combining a level of autonomy and a control arrangement has played an important role in agencification (Verhoest *et al.*, 2010, p. 263). There is a need to enhance the functioning of the autonomy and ensure a constructive role of the control by developing a framework that emphasises clearer governance mechanisms and less input control. It is thus necessary to both build up the autonomy that can allow the agencies to become more flexible and design effective control that supports their dynamics and agility.

Conclusion

This research supports the argument that financial autonomy and control have been critical aspects of agencification. The study has revealed that agencies have benefited from the autonomy through having more opportunity to generate their own income and directly use the revenue. On the other hand, the parent ministries and the MoF play an extensive role in controlling the agencies. From the agency manager's perspective, the benefits obtained from the autonomy are worthless due to these strong control practices. In response to this situation, the government has adjusted the control elements, such as by adjusting the reporting requirements to a single financial statement and delegating approval of the service fee from the MoF to the parent ministry or the agencies.

Based on the interviews, university managers mentioned similar perceptions of the financial autonomy and control practices, including limited financial discretion. Whilst there

are international pressures for uniformity towards the NPM ideal-type agency model, this study provides empirical evidence from the higher education sector in a developing country where agencification is a fairly new phenomenon. With respect to the issues that are perceived to have emerged from this adoption, the financial benefits were seen by university managers as overstated on account of the aforementioned excessive control. These findings contribute to the conceptualisation and real practice of the financial dimension of autonomy and control in the agencification context.

There are some noteworthy limitations to this research. One is the small number of cases from the higher education sector in one particular country, which implies that the results of this study can by no means be generalised. It is possible that the greater financial autonomy is implemented despite extensive control, with expanded cases to capture that practice. Thus, an extension of the research across various sectors and countries would be an important future study challenge. However, emerging issues have been revealed, which provide a potential basis for further research. Another weakness of the study results from the university-specific characteristics involved, i.e. size and parent ministry, which do not represent all university variations. The relevance of including another characteristic such as budget size, source of income, or organisational structure should not be dismissed. Notwithstanding these issues, this study could be considered an attempt to provide a step towards a better understanding of the financial side of agencification by showing the dynamics of the autonomy and control practice in a developing country setting.

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