

Yogyakarta, July 6, 2017

### LETTER OF ACCEPTANCE

2<sup>nd</sup> Journal of Government and Politics International Conference

Number: 130/JGP-IC/JKSG/VI/2017

Dear Author:

**Tri Nugroho Budi Santoso, Ismi Dwi Astuti Nurhaeni**

**Universitas Sebelas Maret, Indonesia.**

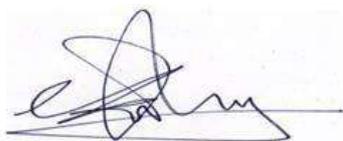
We are pleased to inform you that our panel of board had already reviewed your full paper and decided that your full paper entitled "**Reforming Institutions: The Impact Of Financial Management To Civil Servants Performance**" has been *accepted* to be presented at the 2nd journal of government and politics- international conference.

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I N T E R N A T I O N A L

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## REFORMING INSTITUTIONS: THE IMPACT OF FINANCIAL MANAGEMENT TO CIVIL SERVANTS PERFORMANCE

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### Abstract

Recently, global economic challenge is getting more competitive and economic growth increases in many countries. However, such the economic growth phenomenon is not compensated with employee performance. Many corruption cases occur and employee competency is low, and lavish lifestyle is not comparable to the salary they receive. Financial management is an appropriate means to help the employees manage their finance according to their income. This article aimed to analyze the effect of financial management of civil servant's performance. The method employed was literature study, using inter-theories comparative analysis and meta-analysis. Basically, financial management has three components: firstly, fund source, constituting any activities conducted aiming to get income. Secondly, fund use is any form of activities related to fund source use wisely. Thirdly, asset management is the activity of managing fund source invested or allocated in the form of asset. Those three basic components should be collaborated to create positive synergy. The result of research showed that poor financial management indirectly affected the performance of civil servant. A poor financial management is characterized with the servants' debt not comparable to their salary. Many factors affected the decreased performance: lavish lifestyle, performance focusing on the promotion of position rather than on work productivity, and personal asset ownership. The implication of this article was that a civil servant should be able to manage their finance well so that their performance will be good. The higher compensation given by the state should motivate them to improve their work productivity. In addition, public institution should reform its institution, particularly in the term of payroll and reward system. Salary should be no longer considered as merely the right received by the servants monthly but the size of salary should be dependent on the performance of servants. In addition, public institution should oversee tightly to prevent the civil servants from having debt beyond their solvency.

**Keywords:** Financial Management, Work Productivity, Civil Servant

### INTRODUCTION

Good governance becomes one of the guidelines in the administration of government in Indonesia. Good governance is basically a concept that refers to the process of allocating and managing the policies to respond to various issues to be able to provide the quality public services to the community through the principles of efficiency, transparency and participation (Kalsi and Kiran, 2015: 173). The government always tries to improve the best service for the community, especially in the public services. The

development of employees is one of the efforts undertaken by the government to improve services to the community. In other words, the employees should have professionalism or good performance in providing services to the community because the challenge of the employees' professionalism will increase in every age (Caron and Giaque, 2006: 543).

To realize the professional employees in the good governance achievement, there are two main factors, namely: internal factors and external factors. Internal factors can be

manifested through various ways, namely: employee development, salary, rewards and punishment, or facilitate administratively the needs of employees. While external factors can be realized through improving the quality of service to the community or employment of employees through remuneration. Although good governance has been designed since the end of the New Order Government, until now the quality of public services is not optimal because of the low performance of civil servants. This is evident from the survey on the quality of public services from the Transparency International report which shows that Indonesia is ranked of 107 from 175 countries. Manifestations of low public services include: high corruption, wasteful use of state budget, employee behavior that tends to behave extravagantly with acceptable acceptance. In other words, the financial management of employees has not been properly managed so that employees can not balance the acceptance received from the institution.

Lukito (2016: 933) in his research mentions that the corruption cases in Indonesia are still become the main problem, the opinion is supported by Platt (2015: 86) explaining that the corruption impacts on the reduction of public funds, obstacles to business competition, waste of international development aid and looting wealth of natural resources. This shows that the high level of welfare provided by the government is not fully aligned with the performance of employees. In addition, Prabowo and Cooper's research results (2016: 1042-1051) explains that employees focused only on personal needs such as multiplying personal assets, promotions, or luxurious lifestyle. Then what is an urgent solution for the problem? To solve the problem we need to determine the point of the main problem. From the impact, high income from employees is often not matched by financial management. Hence, it causes an imbalance between income and outcome. The level of demand in the current global era has its own special interest, especially in the emergence of attractive products and help variety of human needs.

Institution plays a very important role in managing their employees related to income

and outcome (Graham, Davey-Evans and Toon, 2012: 71). In the other hand there is the assumption that the management of personnel finances is the private right of employees and institutions do not need to intervene (Murphy and Yetmar, 2010: 812). Empirical evidence shows the existence of a number of employees who earn very low income even minus because they have to return loans obtained from banks or cooperatives, this matter will be discussed also in more detail on the discussion. As a result employee spirit is low because feel that every month work without earn adequate income. From the background study above, it can be concluded that financial management is still needed by employees in order to improve performance. This article analyzes the effect of financial management on employee performance. Specifically identify how the role of the institution in providing motivation and direction related to good financial management for employees.

## MANAGEMENT OF EMPLOYEE FINANCIAL Understanding and Scope of Financial Management

Today we rarely encounter an employee or even ourselves that record our own income in a financial book. Most of them keep their incomes in the passbook and pick it up when it is booked. The impact is we will not be able to calculate the financial condition after we use it. This is where financial management has an important role. Riyanto (2013: 4) explains that financial management is all activities that are related with the effort to obtain funds and use or allocate the funds.

Malinda (2007: 2) states that personal financial planning is a process of achieving personal financial management through a structured and precise financial management. A person who has fixed income is deemed necessary to manage his finances well. The main purpose of financial management is to maximize or increase the welfare for the individual. Increased welfare can be realized here because the income and outcome of employees can be well planned so that all financial risks and challenges can be controlled.

Murphy and Yetmar (2010: 811) explain that most of employees feel financial planning is important and they are interested in developing financial planning but just few that have the skill and knowledge required to prepare their own plans. The statement is supported by the lack of knowledge about the financial literacy of Indonesian, most of people are only familiar with the savings.

Hendro (2011:439) states that there are scopes of financial management, namely:

1. Knowing about theory of money value
2. Financial administration system, financial recording or financial accounting (management accounting)
3. Creating financial statement and analysis of financial statement about the situation, position, and financial performance (financial position)
4. Creating a plan and supervision of the budget.
5. Analysis of financial investment that will be planned and conducted
6. Cash flow manajement
7. Global financial changes

Horne and Wachowicz (2009: 2) states that the implementation of financial management is associated with 3 main activities, namely:

1. Acquisition of funds, is an activity to obtain the sources of income both from basic income and additional income.
2. Activity of using funds, is an activity to invest the funds in various needs both for basic needs and additional needs.
3. Activity of asset management, after the funds have been acquired and allocated, all assets owned should be managed as efficiently as possible.

### **Standard of living improved is not matched with well financial management**

The pattern of modern life offers a wide choice of products in the form of goods and services. Mankiw (2007) states that the standard of living in the country depends on the quantity of goods and services produced. If the value of production is greater, the standard of living is also higher. Along with the implementation of the ASEAN Economic Community (AEC)

in Indonesia, the standard of community life begins to increase. This is proved with various kinds of advanced technology that begin to enter in Indonesia cars, smart phones, laptops, or various kinds of electronic equipment. The principle of mankiw is also applicable in our daily lives. If an employee is more productive in work, he/she will obtain the greater result.

A worker who works harder and smarter will earn more income than those who are less productive, the example is the application of remuneration in various agencies in Indonesia. Sancoko (2010: 43) through the results of his research shows that the remuneration can give motivation to the officers to improve their performances, the achievement is marked by the performance of good service (service excellent). Remuneration programs run by the Finance Ministry can be operated by direct interconnection with other government institutions, especially with public services. But in practice in Indonesia, in his research (Prabowo, 2016: 297) describes that wages and opportunities for high income to encourage civil servants in wasteful lives. The impact is various corruptions in Indonesia are certainly common for us.

The wasteful lifestyle is also a familiar phenomenon. Atmadja (2008) criticizes that teacher certification only makes the teachers rich but not welfare. How much the salary received, it will be felt less, so that the dream of creating a professional teacher remains a dream. The criticism is not merely a common reference, Purwanto, Sugito, and Suud (2012: 20) state that the social and economic changes that occur to the teacher in elementary school who have received teacher professional allowance, in the form of changes in food consumption, dress, hobbies / entertainment, book, association, side job, teacher's living facilities, income management, participation in organizational, the relationship between husband and wife, and children.

James, Leavell, and Maniam (2002: 35) state that Most of households in the modern era tend to have low saving desire and have limited financial assets. Institutions in Indonesia have largely adopted the account method of columns

so that salaries are directly distributed to employees' personal accounts. It can be seen that generally financial individual is taken directly from the account without plan the savings for the future. Nga, Yong, and Sellappan (2010: 278) explain in the context of financial planning, the lack of rational economic considerations can lead to excessive debt, high risk investments and / or inadequate savings for retirement.

Ansyarullah (2015) states that employee is one of the most professions sought in Indonesia, being employees will have their own prestige in the community. One of the advantages of employees is easy in getting a bank loan and stable income that be the main factors of the debit provision from the bank. But with the high needs and poor management, the employees often face shortages at the beginning of every month because of his salary is deducted to pay the debt, while he is not always able to always get the external income to fulfill the other needs.

## PERFORMANCE OF CIVIL SERVANT

### Understanding of employee performance

An organization can be said to grow if it has a qualified employee. A qualified employee is an employee who can accomplish the job according to the target or target set by an organization. The ability of an employee to complete his or her job is called an employee performance. Hasibuan (2006: 94); Nurlaila (2010: 71) explain that performance is the work achieved by a person in carrying out the tasks assigned to him based on the skills, experience, sincerity and time. Performance is high if a work target can be completed at the right time (Nawawi, 2006: 63). Performance is low if a work completed beyond the time limit provided or completely unresolved.

From the explanation above, it can be concluded that the performance of employees is the work achieved by employees in performing their duties as a public servant. In practice, the employee performance appraisal in Indonesia can be assessed through SKP based on PP No. 46 Tahun 2011. However, in the practice this employee performance appraisal through SKP is considered irrelevant, due to the large number of fraud and non-conformity assessment

standards to accommodate the situation and condition in various regions (Pio, 2013: 1). The performance of employees is assessed through how the performance of employees can be felt positively by the public.

### Standards of employee performance

Good performance is basically a performance that is based on standardized procedures established by the organization itself. However, the performance appraisal must have several criteria in order to increase work productivity that is suitable the goals set by the organization. It is not easy, it takes the role of managers to be able to create an atmosphere of work in accordance with the vision and mission of the company. The role of managers on the employee performance can be done with strategies and approaches in dealing with the whole form of problems in the organization. According to Wirawan (2009: 67), performance standards are targets, goals, objectives of employee effort within a certain period. In carrying out its work, the employee must direct all of his energy, mind, skill, knowledge, and working time to achieve what is determined by performance standard.

Prawirosentono (2008: 27), performance can be assessed or measured by several indicators, namely:

1. Effectiveness when group goals can be achieved with planned needs.
2. Responsibility is an inseparable part or as a result of the authority ownership.
3. Discipline is obedient to the law and the rules applied. The employee discipline is the obedience of the employee concerned in respecting the employment agreement with the company in which he works.
4. Initiative, related to the power of thought, creativity in the form of an idea related to company goals. The nature of the initiative should receive the attention or response of the company and the good boss. In other words, the employee initiative is the driving force of progress that will ultimately affect to the employee performance. The main problem is found that in some professions of employees in Indonesia have incentives that are not comparable with the tasks and needs.

Relationship between financial management and employee performance in Indonesia

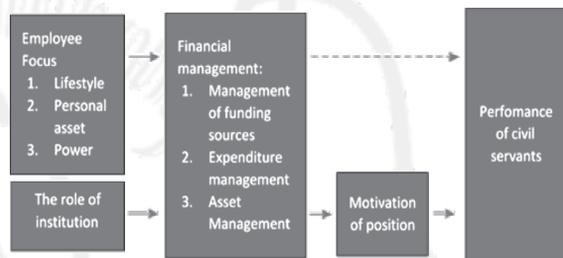
To relate how the financial management with employee performance, there are some researches related to various employee performances in Indonesia that deal with poor financial management.

- Ramadan (2013) in his research “Teacher and Health Worker Absence in Indonesia” explains that there are six determinants of teacher absenteeism and health care workers. They are: inadequate infrastructure (roads and bridges); bad working conditions; absence of sanctions; bribery; side job; and low salaries (only for health workers). From the results of this study, it can be known that poor financial management (health workers) can affect to the absenteeism of employees.
- Haryanto, et al (2016: 224) in his research “Teacher Certification Policy: Evidence from Students and Policy Implications” explains that although teachers have received certification of personality and professional competence of teachers is still considered low. This study provides information for policy makers to evaluate certification policies in Indonesia. From the results of this study, it can be seen that the increase in the teacher income through certification leads to changes in lifestyle and decrease the professional teachers.
- Prabowo (2014: 306) in his article “To be corrupt or not to be corrupt: Understanding the behavioral side of corruption in Indonesia” describes the pressure / motivation, opportunity and rationalization that can be consideration in corruption. Profits and costs can be taken into account before deciding whether or not to commit corruption. From the study, the benefits offered to improve the level of life is deemed as a consideration to someone in the act of corruption.
- JPNN.com (2016), one of the mass media explains that 619 civil servants in Malang City Government since October 2016 ago have been warned by cooperative of Montana Hotel. This happens because

the debt arrears about 2 years on the cooperative. The outstanding debt value of 619 civil servants was quite fantastic that is 35 billion rupiah. Debt raising is caused by credit loans on the banks and cooperatives are personal by each civil servant. Long ago the government has also warned the civil servants to be careful and wise in making loan and credit.

From the article above, easy in proposing the loans and poor financial management that is marked by consumptive lifestyle of civil servants cause the number of civil servants debt.

Based on the results of the discussion conducted, it can be described in the chart as follows:



**Figure 1 The role of institutions in the financial management of employees**

The meaning in the compilation of the chart is consistent with the concept of employee performance according to Prince (2005: 293) career performance is positively related to employee satisfaction and performance so that organizational support plays an important role for employee career development.

### DISCUSSION ON INSTITUTIONAL REFORM OF THE EMPLOYEES IN INDONESIA

Everything is change so is the organization. But the changes that occur are different between one organization with others, either fast or slow. It can be concluded that there is no permanent thing. Wursanto (2005: 309) states that organization that has dynamic relationships is the organization that is always adjusting to the changes. A change that occurs in the company will affect all elements of the organization either directly or indirectly, either quickly or slowly. Hence, the defenses that occur will be interrelated, interconnected, and mutual influence between one another.

The changes that occur within the organization are the result of the various challenges that always arise in the life of the organization. Based on the analysis of the various problems that have been described, it can be concluded that financial management indirectly impact on the performance in terms of effectiveness, discipline, responsibility and employee initiative. The problem is line with the Tjiptoherijanto (2015: 39), he states that the employee performance in Indonesia is considered slow, not have transparency, accountability, initiative, and sometimes corrupt. Therefore, the employees in Indonesia need the reform, both in relation to institutional aspects and in relation to moral issues.

Supardi and Anwar (2007: 113) states that the managers always have to anticipate changes in the environment that will require the adjustment of organizational design in the future. Decrease in performance is also a responsibility for a manager to be able to take decisions in response to changes that occur.

In this case, there are several solutions that can be done by the manager, they are:

**1. Strict regulatory related to loans in the banks is required**

Through strict regulation, the agency is expected to control the desire of employees to apply for loans in various financial institutions. With this regulation, the agency will know how the financial condition of its employees automatically. Lemma (2015: 433) finds evidence that corruption occurs because of the need for debt financing and firm corporate regulation. Hence, this policy is considered appropriate to be able to overcome the desire and ease of employees in applying for a loan.

The implementation of this regulation can be applied through regulation in agency that require the employees to follow the steps applied when applying for a loan. Requirements submitted can be completed by various forms of agreement, or limitations of submission in accordance with the ability of employees. Hence, the agency should have the right to be able to determine the approval of loan by the employee financial institutions/ loan providers.

The implementation of this regulation will face the pro and contra because the employee's

right in applying for the loan is limited by the regulations applied by the agency. However, poor financial management can indirectly affect the employee performance, so that the manager must act decisively. But it also needs a persuasive approach to the employee so that the employee can accept this change wisely. Through a good approach, all the problems that may arise will be resolved.

**2. Provision of financial institution facilities related institutions such as cooperatives**

The provision of financial institution facilities under this agency aims to provide a place for employees to conduct financial transactions. If the agency can pass the management of financial institutions properly, the agency will also be able to know directly the financial condition of its employees. The financial institution of this case is a financial institution that is managed by the employees, and all the benefits can also be felt by employees. It is not only benefit for agencies but also it can provide training indirectly to employees about good financial management.

Cooperative is an ideal financial institution. Briggeman, Jacobs, Kenkel, and Mckee (2016: 402) state that the cooperative business model has several unique aspects including profit distribution system and owner's equity structure. The cooperative manages the various financial problems that may arise as long as the cooperative develops. The cooperatives includes various business sectors, ranging from business cooperatives, consumption cooperatives, production cooperatives, savings and loan cooperatives. The saving and loan cooperatives can compete in fulfilling the needs of employees because the offered interest can compete and can be adjusted with the employee circumstances.

Technical borrowing in saving and loan cooperatives can also be done without guarantee as a member of the cooperative. Loan payments can also be made by periodic payroll deductions, thus it facilitate the members in the process of payment and managing finances. In addition, the cooperative members can also receive SHU given at a certain period according to the agreement, so that it can also be the income of the employees themselves.

### 3. Collaboration with the insurance agency

The low of financial literacy in Indonesia is common for us. When people hear the word 'insurance', they may have negative thoughts. But nowadays people in Indonesia have been open since the government conducts BPJS program because they directly feel the benefits. The problem of poor financial management of employees can occur because the employee does not take into account the various risks that they face during their works.

According to Maenpaa and Voutilainen (2012: 52), there are several types of risks that can be insured for human capital namely: insurance of retirement, accident, health, life, accountability and crime. Through employee insurance, agencies will gain a sense of security, because any risk or accident that occurs is responsibility of insurance so that our economy can continue to be stable. In addition, insurance can also provide a beneficial premium as a fundraiser that continues to grow. And the most important thing is the insurance will conduct a survey in advance and provide recommendations for customers to hold the concept of prevention efforts and countermeasures so that financial management of employees to be better and avoid the risks that may occur.

A company can work together with the insurance if the employee's work has risks that need attention. Although currently in Indonesia employees are required to follow BPJS employment, the use of insurance institutions can also be done in some areas such as retirement management programs, workplace accidents, the risk of crime.

### 4. Implementation of employee remuneration

It is not unfamiliar thing if employee income in Indonesia does not have clear standard. Hence, every field of work has different wage standard and it will cause many problems. Starting from the economic gap, jealousy, even criminal act. For example, the salary of Bank Indonesia (BI) employees will be greater than the salary of the House of Representatives. Although it is still become controversy between morality and reality, from an economist's point of view a person with high income will tend

to maintain his performance, this is inversely proportional to person who has low income will try hard to increase his income. Therefore the same payroll system is required based on employee performance.

With remuneration of employee wages will be adjusted with its performance. The more productive an employee, the more wages earned. And conversely the unproductive an employee, the less wages earned. So this remuneration system will indirectly have a significant impact on the improvement of employee performance. A productive employee will have more income and minimize the fraud that can happen with an online recitation system. Simanungkalit (2012: 110) employee performance can be improved through the remuneration policy, but it takes a uniform subsidy to avoid jealousy among employees who receive remunerasi and who do not. Through remuneration, the wages of employees will be adjusted with the performance. The more productive employee, the more wages earned. And the more unproductive employee is, the low wages earned. Hence, this remuneration system will indirectly have a significant impact on the improvement of employee performance. A productive employee will have more income and minimize the fraud that can happen with an online recitation system. Simanungkalit (2012: 110) states that the employee performance can be increased through the remuneration policy, but it takes a uniform subsidy in order to avoid jealousy among employees who receive remunerasi and who do not.

### CONCLUSION

The implementation of good governance in Indonesia until now is not optimal. This is caused by the performance of employees who have not maximized. One of the main causes of poor employee performance is poor financial management skills. Most employees know that financial planning is important but very few who have the skills that are necessary to prepare their own financial planners. In modern era, the employees tend to have a high consumptive lifestyle. Fixed income and ease in obtaining loans sometimes cause employees to have multiple bills on a monthly. The employees who are unable to manage their finances well will

lose their source of income each month it will affect to the focus of employee indirectly.

The employee performance can be measured through several standards of work effectiveness, responsibility, discipline, or initiative. Many cases in Indonesia can illustrate the poor employee performance due to financial management failure. Low income and poor management of employment institutions lead to decrease employee performance, increase income that change lifestyles and decreased in work professionalism, increase in instant living is considered to be more profitable even through corruption, or the ease of lending makes many employees have debt.

Based on these various problems above, organizational changes need to be done. The researcher provides several options that can make changes in their institutions. It is required to arrange the strict regulatory related to bank loans, provision of the facilities of financial institutions under relevant institutions such as cooperative, collaboration with the insurance agency, and implementation of the employee remuneration. Through these options, it is expected that it will solve the problem of financial management and poor performance of employees.

## SUGGESTION

### Recommendation for Institutions in Indonesia

In the growth of an institution or company in Indonesia, a manager needs to have closeness with his employees. It includes about welfare and behavior issues in work or out of work. Based on the discussion about the poor financial management will have an impact on employee performance, so that the managers have a role as financial management controller of an employee so it is not affected to the employee performance. The various policies need to be implemented firmly for the good such as license and loan recommendations to the banks. Hence, the employees will have a careful consideration before lending. The cooperative organizations are already widely applied but few still survive. This makes the additional task of being a leader to be able to implement people's economic system through cooperatives.

## For the Employees

The employees should have enough income compared to other jobs. Many programs have been done by the government to improve the standard of employees' living such as certification, remuneration, income subsidy, retirement, etc. But the main problem is the pattern of consumptive lifestyle in the modern era. Hence, the employees need to understand about good financial management. Through the management of good customer satisfaction, all the life needs of the employees can be fulfilled so that the employees can focus on completing the duties and being responsible as servant of the country.

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