SYNOPSIS

In 2006, Indonesian economist Sri Mulyani Indrawati took on a huge and knotty problem: bringing order and efficiency to the Indonesian Ministry of Finance, an organization of 64,000 employees. At the time, many Indonesian citizens viewed the ministry as corrupt and unaccountable, exemplifying the failures of the entire government. President Susilo Bambang Yudhoyono had appointed Mulyani because of her reputation as a tough-minded reformer and a savvy manager. Mulyani ascribed the ministry’s weak and inconsistent handling of taxes, customs and other services to a shortage of clear and consistent procedures for the many tasks employees handled. A key element of her strategy was to simplify and standardize ministry processes in order to improve employee performance and accountability. During the next two years, Mulyani and her team initially focused their efforts on 35 priority services that citizens used heavily, and then they expanded the reforms to include other activities. By 2007, the ministry had developed and implemented nearly 7,000 standard operating procedures. The changes significantly improved public services and earned popular acclaim for both the ministry and the Yudhoyono government. This case shows how a strong leader and her reform team introduced new ways of working to achieve significant gains in service efficiency, quality and fairness.

Rushda Majeed drafted this case study on the basis of interviews conducted in Jakarta, Indonesia, in November and December 2011, and on a 2009 interview of Sri Mulyani Indrawati by Matthew Devlin and Andrew Schalkwyk. Case published April 2012.

INTRODUCTION

In December 2005, on her first day as head of Indonesia’s Ministry of Finance, Sri Mulyani Indrawati asked her staff to provide her a list of guidelines for ministry officials, only to be told that such protocols did not exist. Referring to the incident in a speech five years later, Mulyani said, “This clearly described the serious lack of understanding in the Indonesian bureaucracy about the importance of clear standard operating procedures in public governance and, more fundamentally, the absence of an effective checks-and-balances system in government offices.”

Aware that vague procedures and weak controls contributed to a culture of corruption and inefficiency at the ministry, Mulyani moved to tackle the issue head-on as part of a reform agenda that responded to popular discontent and
economic necessity. The Asian financial crisis of 1997-98 had inflicted hardships on Indonesians and sparked widespread protests that had ended the 32-year military dictatorship of President Suharto. Although the effects of the financial crisis and Suharto’s harsh rule lingered for years, successive governments loosened restrictions on political parties and civic groups, organized elections, helped revise the constitution, and began to modify the structure of the government. In 2004, newly elected President Susilo Bambang Yudhoyono vowed to make a reconfigured public sector more transparent and effective.

Overhauling the Ministry of Finance was central to Yudhoyono’s pledge. The success of his broader reform plans, including the improvement of health, education and infrastructure services, rested on the tax revenue the ministry collected. Private companies relied on the ministry to facilitate the movement of goods through customs, to provide required licenses quickly, and to carry out other normal business activities efficiently. Citizens relied on the ministry to coordinate tax payments and refunds in a fair and timely manner. The ministry also regulated and licensed stock market functions, managed and safeguarded government assets, and provided other services.

Shortly after taking office, Yudhoyono appointed Mulyani, an Indonesian economist then working for the International Monetary Fund, as state minister for national development planning and chair of the national development planning agency, responsible for the country’s five-year development plans. Mulyani quickly acquired a reputation as a savvy manager and strategist, and in December 2005 the president appointed her as minister to manage the overhaul of the Ministry of Finance.

Although Indonesia’s economy had not fully recovered from the region’s financial crisis, a budget surplus and a strengthening global economy convinced Mulyani that the moment was right for major reforms. In early 2006, she advised the president to initiate reforms quickly in both public finance and civil service: “We have to do the reform while the situation is good, because this is not going to last forever. … So this was the perfect time. We were not in a position of really risking our budget, [and] our minds were not occupied by a crisis. We can do it peacefully; we can discuss rationally with the Parliament, and the people can also be patient enough to wait for the result.”

**THE CHALLENGE**

Mulyani recognized the breadth and depth of her challenges. Core departments in her ministry dealt with taxation, customs, budgeting, accounting, auctions, capital markets, government bonds, fiscal balance, regulation, education and training, and fiscal policy. Across all of those operations, lack of accountability—stemming largely from the absence of clear procedures—had resulted in poor employee performance and widespread corruption, which in turn produced substandard public services and a poor public image.

Business practices at the ministry were often haphazard and inefficient. Lacking clear, written operating procedures and instructions, many employees tried to follow guidelines laid out in legal documents or department policies. According to Marwanto Harjowiyono, director general of fiscal balance in 2011: “At that time, our bureaucracy had low productivity and a number of inefficiencies. We knew we had to clarify business processes to achieve professional, efficient and responsible civil servants. It was not easy.”

In addition to hindering provision of service, the ad hoc approach taken by many ministry employees had created a massive hole in institutional memory. When civil servants left their positions, their procedures and processes often went with them. Anies Basalamah, head of
the Bureau of Organization and Business Process in 2011, said, “Before the reform, our internal processes were closed, and few people could understand them. People worked a certain way without any standard, so it’s quite possible [that] when they left, the next group or person used some other way.”

Inadequate and incomplete job descriptions for staff also contributed to civil servants’ confusion and prevented managers from holding workers accountable for what they did and did not do. Sylvano Damanik, managing director of Hay Group, a consulting firm that advised the ministry on civil service reforms, said: “The administrative staff is about 40,000, and that is where many questions around who should be accountable for what lies. While some top positions had clear job descriptions, the support staff didn’t. The issue was how to streamline activities at the middle and lower levels within the ministry.”

Because they had broad leeway in how they did business, ministry employees had ample opportunities for bribe taking and other forms of corruption. In the absence of set procedures, they could require multiple signatures, for example, with each signing point presenting an opportunity for eliciting of special payments. Staffers also could create cumbersome and time-consuming procedures that encouraged citizens to pay for expedited service. And if ministry employees could tailor the process any way they wished, people knew they could request special consideration—for a price.

Corruption was especially acute in the directorates general of Taxation, Customs and Excise, State Assets Management, and Treasury, all of which offered many different services to the public. In 2005, Indonesia ranked 137th out of 158 countries in Transparency International’s annual Corruption Perceptions Index, a measure of citizens’ perceptions of public-sector corruption. Indonesia’s score of 2.2 on a scale of 10 (with 0 as highly corrupt) put it roughly even with Ethiopia, Liberia and Iraq and worse off than the neighboring Philippines (2.5) and Malaysia (5.1). The Ministry of Finance significantly contributed to corruption perceptions. Harjowyono recalled: “There was a lot of corruption within the ministry. When we went in to reform, we were given cynical views by some employees and even asked about what they would gain in return for reforms.”

Not surprisingly, public services were generally poor and inconsistent. Harjowyono said, “Our service quality was not up to par, and the time it took to get a service was lengthy.” Customers in tax offices could wait for as long as three days to get a single tax identification number or seven days to get a value-added-tax number. Tax refunds could take up to a year. In customs offices, travelers and businesspeople often waited for days to get goods cleared. Such delays, as well as the hardships the delays inflicted on citizens and businesses, interfered with the finance ministry’s broader aims, including its goal of expanding Indonesia’s tax base. “We had to reform the bureaucracy for quality of service,” Harjowyono said. “One of our main goals was to improve services for shorter time and quality, and we wanted to guarantee certainty to the customers.”

The generally poor quality of routine services, coupled with a culture of bribery in some departments, left the public disgruntled, suspicious and distrustful. Mulyani knew that reversing unfavorable public opinion and restoring citizens’ trust were crucial to building the support she would need to bring about broader civil service reforms at the ministry. She also knew it would not be easy. “The Ministry of Finance or government in general was not trusted by the public and was always seen as a corrupt institution,” she said. “How could we live in an institution that was perceived by the public in such a humiliating way?”
FRAMING A RESPONSE

To achieve her goals, Mulyani needed to build internal support with a strong team, develop and promulgate a deep base of knowledge about processes and procedures, create quick wins in order to stoke public and legislative support for ministry reforms, and set up institutional structures to ensure effective implementation, follow-up and sustainability.

Mulyani assembled a team of high-level civil servants from within the ministry’s ranks. Her core group included Secretary-General Mulia Nasution, head of the ministry’s center of operations and Mulyani’s second in command; Harjowiyono, who was head of the ministry’s public relations bureau at the time; and Juni Hastoto, chief of the Bureau of Organization and Business Process, an office responsible for ministrywide procedures.

Mulyani’s immediate priority was to recruit top managers to her cause. “As a group, the top echelon of the Ministry of Finance was not really keen or excited with the idea of reform,” she recalled. “Their response was that the idea of reform was good—it was always very important—but they thought it was not doable because the idea was just too big. They just could not translate it into something which was workable.” She met with them and encouraged them to describe and discuss their problems and those confronting the ministry. Harjowiyono recalled: “The minister invited all the directors general to decide if it was important to have reforms. Some supported it, some were quiet and some indifferent.”

During those early discussions, Mulyani took special note of a pilot project launched four years earlier at the Directorate General of Taxation: In 2002, under Minister of Finance Boediono (who uses just one name), the directorate general had begun to clarify procedures by developing specific task instructions for civil servants. Robert Pakpahan, senior adviser to the minister of finance in 2011 and formerly at the tax directorate, said: “We initiated reforms in 2002 with International Monetary Fund involvement, with the objective to improve our processes. Started in 2002, it was being done gradually within the Directorate General of Taxation.”

Mulyani planned to address the finance ministry’s problems on three fronts: processes, organization and performance management. The process focus was ambitious and critical to the success of the overall reform effort. It called for the development of clear, concise and sensible standard operating procedures, or SOPs in the forms of step-by-step instructions, charts and diagrams to carry out business transactions and deliver public services both at the center of the ministry and throughout the 11 directorates general. Well-written guidance, based on pretested procedures, would give civil servants the direction they needed to do their jobs properly and would eliminate the uncertainties that fostered corruption.

Mulyani knew she had to build both public and legislative support in order to succeed with her reforms. Aiming to create a positive public image for the ministry as quickly as possible, she decided to target a relatively small number of services that involved direct interaction with citizens and businesses. Rionald Silaban, who was director at the Fiscal Policy Office in 2006, said: “In order to improve the bureaucracy, we had to simplify procedures, lock in some of the direct public services, and really improve our performance toward the public. We understood that there was a need and that by having SOPs, people would know how much time they needed, and they would have an expectation of when things would be implemented.”

Mulyani and her team identified 35 priority areas whose improved services would be likely to earn public support that could drive momentum for change. Their strategy figured that public recognition for such successes would underscore
the effectiveness of reforms and translate into legislative backing for Mulyani’s other plans, which included increasing civil servants’ salaries.

In early 2006, Mulyani began building institutional structures for civil service reforms. She chaired a top-tier steering committee made up of Secretary-General Nasution and the 11 directors general. Below the steering committee, a core reform team of 10 members supervised reforms throughout the ministry. Harjowiyono managed day-to-day operations of the core team, and Hastoto served as secretary. In addition to other civil service reforms, the core team led the development and management of procedure documents, counseling managers in various offices on how to streamline and document processes. And the team reviewed and revised the SOPs that civil servants produced. Second-tier units in each directorate general were responsible for implementing civil service reforms through lower levels of the ministry. An SOP manager in those units worked closely with civil servants to document procedures, provide guidance, and seek advice or approval from the top-level team. The SOP manager and his or her team also had the longer-term task of reviewing and revising procedure documents as needed.

Follow-up was important. Inspector General Agus Muhammad led a 10-member task force responsible for tracking implementation in various offices and for evaluating the quality of the reforms. Sonny Loho, inspector general in 2011, said: “We had nine areas of reforms, and one of them was developing internal controls. As a monitoring unit, the evaluation team tried to help the core reform team implement SOPs.” Among the other areas were reorganization of ministry directorates and departments, measurement and improvement of employee performance, training, boosting of salaries, and upgrading of technology.

For members of the ministry’s core reform team, a critical early step was to map out the core requirements for creating valid, functional SOPs. Silaban said, “When Sri Mulyani appointed the reform group, this was the first team of reformers in the whole country, so there were no guidelines.” The reform team looked to other countries for ideas and best practices. Harjowiyono said, “We tried to learn from several countries at that time, such as the United Kingdom, Singapore, South Korea, Australia and New Zealand.” Team members also solicited advice from consultants and such organizations as the World Bank and the International Monetary Fund. Their research trips and discussions gave the team members ideas about how to assess current procedures and how to improve and standardize them.

Based on the information gathered, the core reform team established a set of principles: SOPs for all ministry functions had to be simple, transparent, efficient and cost-effective, and they had to ensure timeliness and accountability. The principles would apply equally to all procedures—for example, for such services as issuance of tax identification numbers or authorization of stock market accountants, even though the specific processes differed.

In late 2006, Mulyani issued a ministerial decree requiring all ministry offices to create and implement SOPs and provided the guidelines for doing so. Silaban described the importance of such a formal step: “In Indonesia, there must be a decree from the minister if there is any change in an organization such as restructuring. For a new task, there must be a decree, and every person mentioned in the decree has to take part in the change.” The core reform team worked closely with Mulyani to create the document, which included practical information on how to assess the cost of a procedure, measure time requirements, write a description, and draw process flowcharts. The creation of final SOPs would involve the civil servants who did the actual work, with support and help from the second-tier and top-level reform teams.

Aware that effective implementation also
required employee accountability, Mulyani developed ways to ensure that civil servants would follow their new, written procedures. She ensured that managers and staff prioritized creation and implementation of SOPs by incorporating those tasks into their performance evaluations. Key performance indicators, which touched on all of the reform areas, later formed the basis for monitoring and enforcing the use of SOPs.

GETTING DOWN TO WORK

Mulyani’s personal will and hands-on management style shaped her supervision of the reforms. She worked closely with managers to ensure that reforms progressed as planned. And she met with those managers frequently, on a weekly basis, for discussion of issues and solutions.

Establishing priorities for quick wins

In early 2007, the reform team surveyed ministry services and met with directors general to identify high-profile public services whose procedural improvements might produce a positive public response. The surveys asked questions about the customers for specific services and the time required for delivery of each service. Harjowiyono and his team worked closely with the directors general to focus on high-demand services that stirred public ire because of slow or unsatisfactory delivery.

With input from the directorates general of Budget, Treasury, Customs and Excise, Taxation, and Asset Management and Capital Markets—offices that dealt directly with the public—Mulyani and her reform team identified 35 services that could be overhauled relatively quickly and would elicit the most public support.

For each of the 35 priority areas, the reformers set about creating so-called excellent or quick-win SOPs that established clear standards regarding timeliness and other important aspects of service provision. One target area, for example, involved the provision of tax identification numbers, because taxpayers often complained about the excessive time the application process required. The tax directorate divided into several distinct steps its process for registering taxpayers, starting with informing each customer about the application, related fees and time requirements. The next steps would involve collecting the required application information and supporting documentation from the customer, processing the application and updating internal records, and, last, notifying the customer that the registration was complete. Pakpahan said: “We made a promise to the public, for example, that the tax office will have the tax identification number processed and completed in one day, as opposed to one week. In fact, Sri Mulyani insisted that it would take less than one day.”

At the Directorate General of Asset Management and Capital Markets, the second-tier reform team worked with civil servants to simplify the steps and reduce the time it took for stockbrokers to obtain licenses. Priority SOPs within the Directorate General of Customs and Excise targeted the time it took to import and export goods. At the Treasury, new procedures aimed to reduce the time required for payments from the budget to two hours from two days.

Harjowiyono’s core team worked with the second-tier reform teams in the directorates general to create new procedure documents for the 35 priority areas. SOP managers and their teams worked closely with frontline civil servants to determine precise procedures. Puspita Wulandari, SOP manager at the Directorate General of Taxation in 2011, said: “We put processes into SOPs, sometimes with flowcharts, so that people could visualize and know who will do what and when. With standardization, people know their responsibility and know what output they have to give to the next person or unit.”

In mid-2007, civil servants across Indonesia received the new procedure documents for the 35 areas. Harjowiyono said, “We disseminated the
excellent SOPs to all offices, including regional and local offices in tax and customs.” Dedi Syarif Usman, who managed SOPs at the Directorate General of Asset Management and Capital Markets, said managers made clear to their staffs the importance of strict implementation: “We had to stick to the excellent SOPs as a promise to the public. There would be no other cost, including no bribery. We aimed to increase people’s satisfaction and get public trust to build support for civil service reforms.”

The ministry publicized the priority SOPs widely to show Indonesians that their government was working hard to improve how business was done. Mulyani called press conferences and appeared on television to showcase progress in the 35 priority areas. Harjowiyono said: “The media loved Mulyani when she talked. So, for excellent SOPs, we called a press conference, and Mulyani even spoke on a TV talk show.” The ministry also held workshops with customers who used the priority services, sometimes involving colleagues from other institutions. For example, workshops on imports and exports included representatives of port authorities. The ministry later disseminated booklets publicizing the 35 priority SOPs.

By installing complaint boxes in post offices and establishing a call center, Mulyani and her team also made it easier for the public to report problems and shortcomings. Harjowiyono said, “We allowed for faxes, letters and phone calls so that customers could complain if they were unfairly treated.” Pakpahan added: “We wanted to show that the ministry has changed and we promise you, the public, these 35 SOPs. We announced to the public, and they could check the services. If civil servants violate what we said, then you can tell us.”

Customer education played an important role in the reforms. “The challenge was not only from our officers but also from the public,” Harjowiyono said. “For example, to refund taxes we have several requirements. If the customer forgets to fulfill one, he has to complete it and come back to the office. The old regime would say that you give us a bribe and bring the document later. The reform required convincing the customers that you have to complete all the requirements without paying the officers. Educating the customers required time.”

Harjowiyono and his team instructed civil servants in front-office positions to display instructions, brochures and posters prominently. “We asked every office to put a flowchart of an SOP in the front office so that people know about the SOP that must be followed,” he said. At a taxation office, for example, a chart or notice would inform customers looking to file tax returns which service counter to approach, how much time it would take to file the return, and what documents were required.

Instituting procedures within the ministry

As efforts moved forward on the 35 priority areas, Hastoto’s team at the Bureau of Organization and Business Process coordinated with second-tier reform teams to develop SOPs for other ministry processes, including those that involved interdepartmental work. Pakpahan said, “All directorates general or departments have to develop or create SOPs for all processes; some of these SOPs are stand-alone or regular SOPs. But some SOPs are linked across departments, whenever civil servants have to work with different departments.” Such cross-departmental procedures were valuable, for instance, for civil servants handling tax refund applications, because the Directorate General of Taxation would have to verify with the Directorate General of Budget that payments could be made from the Treasury.

The directors general issued decrees that outlined the format for creating SOPs in their sectors. The decrees contained guidelines based on specific laws and rules applicable to their units. For example, the Directorate General of Customs and Excise had to consider international customs...
laws and standards before deciding on best practices and SOPs.

The creation of detailed procedure documents involved an arduous process. Silaban said: “The directorates general of Budget, Tax and others created teams to carry out the documentation. Then everyone started writing SOPs. After we started, we realized that we had to make a list of processes. In the past, we seldom did that. We had to map out our business processes and the whole design of our office [in] detail.” Pakpahan added that tight deadlines made the job more challenging: “We struggled because we were not given much time. Within two or three months, we at the tax directorate had to create 2,000 SOPs. We submitted these to the reform team, which then checked the processes and looked at the documentation.”

With the help of Hastoto’s team, civil servants in each office examined processes, simplified them, and documented revised procedures in painstaking detail. The core reform team worked closely with the reform units and frontline civil servants in each directorate general to determine the time needed to complete each step of a procedure and to ensure that a specific employee was responsible for each step. Final SOPs had to include all parts of the process and observe all the normal requirements of the chain of command.

Because managers had to collect information about procedures, personnel, time and cost from all of the offices under their purview, the task was intensive. Usman of the Directorate General of Asset Management and Capital Markets described his approach: “When we created SOPs in 2007, we invited people from all directorates and from regional and service offices to Jakarta. We held several meetings. To finalize SOPs toward the end of 2007, we went to outside Jakarta for one week and took 30 people from this office plus representatives from regional and service offices. We finished 970 SOPs in one week.”

After Hastoto’s team approved an SOP, the document went to Nasution, who as secretary-general had the final say on whether to move forward with implementation.

Some procedures were more difficult to document than others, especially those whose job responsibilities were unclear or when more than one office was involved. Panca Putra Jaya, of the Directorate General of Customs and Excise, said, “Sometimes regional offices adjusted practices for their own flexibility, which in some cases caused disputes over who was responsible for a particular job.” To resolve such issues, the reform teams examined legal guidelines such as customs laws and ministry regulations or invited civil servants to discuss and resolve uncertainties about who was supposed to do what. Directors general signed off on revised job descriptions after managers resolved disputes, some of which required several rounds of discussion and consultation.

Procedures that were confusing or that involved a large number of civil servants were split into simpler ones whenever possible. For instance, when revising procedures regarding government auctions, the Directorate General of Asset Management and Capital Markets decided to split one particular SOP into six. Development of cross-departmental SOPs was especially challenging, sometimes taking as long as six months because of the number of people and processes involved.

To implement SOPs, managers and their teams sent decrees and procedure documents to regional, local and service offices. In addition to mailing copies or sending documents electronically, they uploaded SOPs to internal databases and websites. Procedures that involved the public were displayed on the ministry’s website. Given the detailed descriptions, the diagrams and the preparation, managers expected
civil servants to be able to implement SOPs without the need for intensive additional training.

*Ensuring compliance and monitoring implementation*

In October 2007, following an intensive strategy discussion between Mulyani and her top managers and as part of the overall civil service reforms, the core team put in place certain key performance indicators for high-level managers. The SOPs, which clarified procedures and set forth job responsibilities, became a useful tool for the monitoring and evaluation of employee performance across many levels. Indeed, nearly all civil servants’ performance could be measured by how well they met requirements related to creation, revision and implementation of the policies set in SOPs. The Bureau of Organization and Business Process established annual targets for the number of SOPs a directorate general would create or revise, and it incorporated them into key performance indicators. Directors general in turn set targets for the units below them and held employees accountable.

The bureau closely monitored the implementation of SOPs. Yonathan Tangdilintin, a member of the bureau’s monitoring team, said: “One of our roles was to ensure that everyone followed the SOPs: the top, middle and even lower-level managers or officers. We had to synchronize every activity, from one level to the next.” The bureau interviewed civil servants around the country and carried out public surveys of service quality, concentrating on the 35 priority areas more closely than on other areas.

By the end of 2007, the inspectorate general, the ministry’s internal auditing office, had also started spot-checking regional and local offices for service quality and procedural compliance. Inspector General Loho said: “We used four parameters to review an SOP: time, cost, stages of an SOP, and the person responsible.” Mulyani tracked progress on implementation at quarterly meetings. “In the early years of implementation, all the directors general met, and we presented it in front of them as an input for them to evaluate their work, especially for the SOPs,” Loho added.

*Revising procedures*

The reform leaders recognized that although standardization and efficiency were important, the system had to be flexible too. Procedures changed when the minister or a director general revised a decree or when an office got restructured. Revisions also came from SOP managers in directorates general, who constantly evaluated tasks and functions. And regional and local offices or other departments requested changes to accommodate their own specific needs. Usman of the Directorate General of Asset Management and Capital Markets said: “We told our staff not to hesitate in informing us if they saw any mistakes. As an example, our staff in Palembang, South Sumatra, asked if they could revise four of the 10 forms that they used in the head office.”

In addition to involving frontline civil servants in the creation of the SOPs, the system fostered employee involvement in the updating of procedures across the ministry. All of the 33,000 civil servants at the Directorate General of Taxation could request changes via an online system or could send requests when they submitted quarterly reports to the main office. Managers in tax offices, too, analyzed jobs regularly and tried to simplify them. They could request the SOP manager to make changes if a job or procedure became obsolete or could be simplified. An SOP manager who verified the request sent it to the Bureau of Organization and Business Process for approval. Then the bureau did its own investigation before approving or rejecting a change. And over time, the bureau and the directorate general started sampling and reviewing SOPs every year.

Managers said the vast majority of valid requests resulted in changes to SOPs, but some requests did not. Managers found it easy to make
simple procedural modifications, but complications arose when a revision required changing a regulation, for instance. Wulandari, SOP manager at the Directorate General of Taxation, said, "In these cases, we just collect data and store it for future changes to job descriptions."

OVERCOMING OBSTACLES

As implementation began for the 35 priority SOPs, Harjowiyono and others on the team realized the difficulties inherent in changing behaviors and sustaining the reforms’ momentum. "At that time, the challenge was to maintain the spirit of the reform,” he said. Reform efforts always promoted new cultures, and SOP reforms in particular introduced new ways of working. In addition, SOPs made it difficult to solicit bribes that had provided extra income for some employees. Many civil servants, including some senior managers, hesitated to implement required changes. Sanityas Jukti Prawatyani, head of the Gambir 1 Small Taxpayer Office—one of several locations for filing taxes in Jakarta—recalled in 2011: “When we implemented the reforms in the Directorate General of Tax, there were some employees who liked to work in the old way. They did not want to change.” It was especially difficult to monitor regional and local offices around the country.

Mulyani’s personal toughness, managerial savvy and dedication were crucial factors in powering through these crosscurrents, those involved in the reforms said. “The leadership of Mulyani was very firm,” Pakpahan said. “That leadership stopped the resistance. When the leader showed the way and firm direction, staff read the signal and joined in.” Mulyani met with the reform team regularly and held top managers accountable for implementing specific goals. Harjowiyono said: “She would meet with the 11 heads and ask why some agencies were not up to par. She questioned very directly. She mentioned that one of her main key performance indicators is this reform and said it publicly. She said that reform is my agenda, and so we bulldozed through it.” Although Mulyani was a demanding manager, she worked hard to help team members deal with issues and resolve disputes. “Mulyani gave support,” Harjowiyono added. “Every time I had a problem, I went to her. At that time, I remember that we met with her twice a month.”

Mulyani also provided monetary incentives for top-level managers. In the past, managers had been allowed to boost the base salaries of entry-level civil servants through additional cash allowances. However, senior-level civil servants were not allowed such incentives. As part of Mulyani’s broader civil service reforms to minimize corruption, top managers received supplemental pay that sometimes was equal to several times their base pay.

Aware that reforms required buy-in at all ministry levels, Mulyani and the top managers focused on winning over mid-tier managers. Directors general met with their managers to explain the reforms and the importance of compliance. At the lower levels, directives made it clear that compliance was not optional; civil servants soon understood that they could be penalized or even fired if they did not follow the standard procedures. Usman said the message from the top managers was clear: “If you follow the procedure, you have joined us in the reforms. If you don’t, then you can join another organization.”

Although implementation of specific SOPs often involved a single employee’s adjustment or a small group of employees’ adjustment to new procedures, the core reform team and directorates general also took steps to educate employees by holding workshops and training sessions. At the Directorate General of Taxation, Prawatyani recalled a series of such sessions: “We called it ‘training of the trainers’ and trained 700 employees in taxation to be trainers. During the sessions, we also trained them on the new SOPs
and how to change the mind-set of the people they would train later.”

Continuing a tradition started in 1999, at the end of 2007 Mulyani asked the Bureau of Organization and Business Process to conduct a contest for selection of a priority SOP that would rank high in quality and customer satisfaction. Evaluators from the bureau asked the Directorates General of Taxation, Customs and Excise, Asset Management and Capital Markets, and Treasury to submit entries. The evaluators observed SOPs in action and surveyed customers to pick a winner. In 2011, the Directorate General of Treasury won the award.

ASSESSING RESULTS

By the end of 2007, two years after Mulyani had pushed for improvements in procedures, reform teams across the Ministry of Finance had helped develop 6,824 SOPs in the 11 directorates general. And with each directorate general creating, reviewing and refining SOPs every year, the Ministry of Finance had completed 10,762 by the end of 2011.

SOPs reduced processing time and saved money. Within the Directorate General of Taxation, for example, the issuance of taxpayer identification numbers—a service in high demand—took just one business day in 2007 compared with the earlier standard of three days. Tax refund processing now took one month, as opposed to as long as a year, and requests for exemption from the value-added tax took three business days rather than seven. Tax appeals took nine months versus a year. In the Directorate General of Customs and Excise, civil servants reduced the time for travelers to go through the green channel—a checkpoint for those carrying legal goods within acceptable limits—from four hours to 30 minutes, and red channel—for prohibited goods or goods in excessive quantities—from 48 hours to 12.5 hours. Export services took four hours, down from the earlier nine hours. In Treasury, disbursement orders took one hour rather than 24.

Customer satisfaction surveys by independent institutions such as the University of Indonesia and the Bandung Institute of Technology showed an improved public perception of ministry services. In 2006, an opinion survey by the university showed that 63.6% of the interviewees were satisfied with the ministry’s service. The number increased to 74.4% in a 2008 survey.

Improving public satisfaction reflected the performance of civil servants. SOPs clarified job responsibilities by providing detailed information that helped ministry workers do their jobs better and faster. SOP Manager Wulandari said: “SOPs [were] understood better than job descriptions. They really informed the civil servants on how to do their jobs. They also helped to improve job descriptions.”

Together with Mulyani’s other civil service reforms, improved operating procedures at the finance ministry likely contributed to the measurable gains the Indonesian government achieved. During Mulyani’s first four-year term as minister of finance, the number of Indonesians who paid income tax rose from 4.3 million in 2005 to nearly 16 million in 2009, and tax revenues increased by 20% per year. Indonesia’s Corruption Perceptions Index showed steady improvement, rising from 2.2 in 2005 to 2.6 in 2008 and 2.8 in 2009 and 2010. Although some of those gains reflected other factors, Mulyani’s reforms received significant credit. Prawatyni said, “Our president said that the Corruption Perceptions Index is getting higher because of the contribution from [the] Directorate General of Tax and Directorate General of Customs and Excise.” In 2009, after winning a second term, President Yudhoyono showed his appreciation for Mulyani’s work by reappointing her as minister of finance.

Not surprisingly, problems still arose in the implementation and monitoring of SOPs,
especially in local and regional offices in remote parts of the vast Indonesian archipelago. Some heads of offices failed to distribute new procedures to far-flung locations or did not exercise sufficient oversight. Further, it took a lot of time and energy to create, revise and monitor SOPs. And constant restructuring within the Ministry of Finance added to the problem as civil servants prepared new SOPs or frequently eliminated obsolete ones.

Some critics expressed doubts about the effect of SOP reforms on civil servants’ performance. They said they felt that Mulyani had showcased a few successes to push through higher salaries for civil servants but that overall performance had not improved significantly. Kabul Sarwoto, governance expert at Yayasan Inovasi Pemerintahan Daerah, a foundation for innovation in local government, said: “There are criticisms that the ministry’s bureaucratic reform and salary increase for promoting performance failed to prevent corruption. A large-scale corruption was caught at its Directorate General of Taxation, as widely published by mass media in Indonesia.” Sarwoto was referring to a 2010 corruption case in which law courts convicted a mid-level tax officer for pocketing millions of dollars in bribes.

Although visitors from neighboring countries such as the Philippines and Cambodia often came to learn about SOPs from the Indonesian Ministry of Finance, other levels of government within Indonesia itself did not copy the model. Eko Prosojo, vice minister at the State Ministry of Administrative and Bureaucratic Reform, a ministry that oversaw civil service reforms, said in 2011: “I do not see any other ministries that [have] replicated this. The bureaucracy reform is mostly meant by other ministries to get additional incentive, not to improve business process in bureaucracy.”

Although a number of ministries were in the process of initiating civil service reforms, none had gotten very far in undertaking deep procedural changes, and SOPs had not taken a hold. SOP reforms had far-reaching effects at the Ministry of Finance, however. With improvements in public services, the ministry acquired a reputation for being a well-performing government agency. Civil servants, too, gained greater confidence in how they did business, relying on consistent procedures to maintain quality and efficiency of service. Silaban, senior adviser to the minister of finance in 2011, said: “We realized that [SOP reforms] had a lot of implications: control of staff, accountability and standardization. In a country like ours, SOPs become very important. When auditors come in, they can just look at an SOP to check how tasks are carried out. Governance improves.”

REFLECTIONS

The story of how Indonesia’s Ministry of Finance created and implemented standard operating procedures across its giant bureaucracy illustrates the importance of personal power and tenacity at the top echelon of reform efforts. Sri Indrawati Mulyani’s determination, persistence and managerial skill played leading roles in the success of SOP reforms at the ministry. Juni Hastoto, head of the Bureau of Human Resources in 2011, said: “A key to success in SOP reforms is the commitment of the leader. Sri Mulyani was very committed to making it work. When the minister is committed, then the directorate general and other echelons are also committed. Without commitment from the top managers, the reforms won’t work.” Marwanto Harjowiyono, director general of fiscal policy in 2011, added, “We told the other ministries who wanted to learn that the support of the head of the unit was very important, and we had that support and that of the directors general.”

Mulyani’s close working relationship with senior managers and her emphasis on institutional reform structures helped move implementation
forward. Dedicated teams carried out SOP reforms and monitored compliance. Mulyani’s policy of meeting frequently with the directors general helped maintain a sharp focus on key issues and kept her team motivated.

SOP reforms had taken root by the time Mulyani left the Ministry of Finance to become a managing director at the World Bank in 2010. Harjowiyono said: “In terms of SOPs, the spirit of reform is already there. Right now, civil servants feel uncomfortable if they are not following the reforms, so the reforms have been institutionalized.”

Still, more work was needed. In 2011, Harjowiyono said the ministry should cultivate young leaders to carry on the spirit of reform. “Based on my experience dealing with the reform team, there are young and dedicated loyal officers that could be prime movers of reforms,” he said. “Pushing up the next generation of leaders is important.”

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3 *Standard Operating Procedures*, November 2011.
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