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# THE EXEMPLIFICATION OF GOVERNANCE PRINCIPLES WITHIN STATE ASSET MANAGEMENT LAWS AND POLICIES: THE CASE OF INDONESIA

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Efficient state asset management is crucial for governments as they facilitate the fulfillment of their public functions, which include the provision of essential services and other public administration support. In recent times economies internationally and particularly in South east Asia, have displayed increased recognition of the importance of efficiencies across state asset management law, policies and practice. This has been exemplified by a surge in notable instances of reform in state asset management. A prominent theme in this phenomenon is the consideration of governance principles within the re-conceptualization of state asset management law and related policy, with many countries recognizing variability in the quality of asset governance and opportunities for profit as being critical factors. This issue is very current in Indonesia where a major reform process in this area has been confirmed by the establishment of a new Directorate of State Asset Management. The incumbent Director-General of State Asset Management has confirmed a re-emphasis on adherence to governance principles within applicable state asset management law and policy reform.

This paper reviews aspects of the challenge of reviewing and reforming Indonesian practice within state asset management law and policy specifically related to public housing, public buildings, parklands, and vacant land. A critical issue in beginning this review is how Indonesia currently conceptualizes the notion of asset governance and how this meaning is embodied in recent changes in law and policy and importantly in options for future change. This paper discusses the potential complexities uniquely Indonesian characteristics such as decentralisation and regional autonomy regime, political history, and bureaucratic culture

**Keywords: Governance, state asset management laws and policies, Indonesia, political history, state asset management reform.**

## 1. INTRODUCTION

State asset management laws, policies, and practices is rapidly gaining the close attention of governments worldwide [1-4], in response to governments realizing their reliance on the maximum performance of state and the need for an efficient and effective state asset management policies and practices.

The practice of state asset management differs between countries, in areas such as; definition of state asset management and categorization of state assets, level of third party involvement (i.e public private partnerships), accounting and reporting system in place, information system and data management, and the level of authority segregation between different levels of government. According to Kaganova and McKellar [4] despite the variance in state asset management practices, common challenges such as incomplete approaches to information system, accountability, and good governance adherence/conceptualization can be identified. A surge of reform in state asset management practices has been identified, whereupon good governance principles has surfaced as a main concept in the consideration of conceptualising (or drafting) reformed state asset management laws and policies [5-7, 1].

This issue is very current in Indonesia where a major reform process in this area has been confirmed by the establishment of a new Directorate of State Asset Management [8]. Although considered by Kaganova [9] as one of the countries that is only starting to embark on the journey of reforming their state asset management practices, the incumbent Director-General of State Asset Management has confirmed a re-emphasis on adherence to governance principles within applicable state asset management law and policy reform.

The Directorate General of State Asset Management have stressed the new direction of Indonesia's state asset management through the introduction of Republic of Indonesia Constitution Number 38 Year 2008, which is an amended regulation overruling Republic of Indonesia Constitution Number 6 Year 2006 on the management of central and regional government assets [8]. Constitution number 38/2008 aims to further exemplify good governance principles and puts forward a 'the highest and best use of assets' principle in state asset management[8]. However, there is still ambiguity in the meaning of 'the conceptualisation of good governance within state asset management' – particularly in regards to the definition, context, extent, examples, and guidelines.

Indonesia is chosen as an exemplar in this paper for several reasons. Firstly the re-introduction of good governance principles post-Asian Financial Crises in 1997 is an ongoing process within the country, where improving the understanding and implementation of good governance in all areas of government responsibility is a main objective of the current presidency of Susilo Bambang Yudhoyono [10]. However the Indonesian society at large acknowledges the tendency of 'falling back and remembering' the entrenched ways of Soeharto's regime, which conflicts with good governance principles, during the process of implementing an innovation [11,12]. The intricacy of contradiction between 'new way' and 'old way' of doing this provide an interesting platform for understanding the complexities in conceptualising and implementing good governance principles within state asset management laws and policies.

Secondly a review of state asset management practices (of various countries) and the literature on an integrated good governance and state asset management approach show that although Indonesia is acknowledged to have interesting complexities within its application of state asset management practices [13, 14, 19], there is a dearth of study on Indonesia's state asset management practices. Thirdly, Indonesia's introduction of a decentralization and regional autonomy regime in 2001 suggests higher level of potential disparity in regional cultures, level of resources (human, capital, physical), and government policy objectives within its 33 provinces. This suggests the need to discuss the potential complexities in the equal implementation of integrated good governance and state asset management policies across 33 provinces.

## **2. STATE ASSET MANAGEMENT AND GOVERNANCE**

According to Kaganova and McKellar [1] state asset management does not directly address the ownership or management of "public" housing, basic infrastructure facilities, or parkland; where their work is focused state assets such as urban non-residential real estate, including vacant land, owned by governments and their various authorities or entities. Schulte and Ecke [15] however identified that public housing and basic infrastructure facilities (in the form of buildings) are assets that allow the government to provide basic public service. The Indonesian government also has its own categories on what is considered to be state assets. It characterises state assets as fixed assets, which includes building, land, roads, and bridges; and categorises water, drainage, energy provision, maritime transport and security, transportation, irrigation, roads and railroads, electricity, telecommunication as public infrastructure [8]. Based on the above information this paper categorises state assets as: public housing, public buildings, parklands, and vacant lands.

The concept of state asset management itself is not particularly new, however it is a concept that has continually changed in phrase as well as its overall definition. Jim [16] provides a simple definition to state asset management: A continuous process-improvement strategy for improving the availability, safety, reliability, and longevity of assets – i.e systems, facilities, equipment, and processes. Cagle [17] argues that a practical working definition of state asset management is embodied in the knowledge of three crucial aspects: a) what assets are available, b) the condition of assets available, and c) the financial burden it will cost to maintain the available asset at a targeted condition. Cagle [17] further stated that state asset management refers to a set of processes or activities addressing the proactive management of capital assets and/or infrastructure. This includes:

1. Maintaining a systematic record of individual assets as an inventory, with regard to acquisition costs, original and remaining useful life, physical condition, and cost history for repair and maintenance.
2. A defined program for sustaining the aggregate body of assets through planned maintenance, repair, and/or replacement.
3. Implementing and managing information system in support of asset management practices.

The task of a state asset manager can be likened to that of a corporation holding a mixed portfolio of real properties [18]. At one level it is decided how to manage individual property holdings – this means how to operate, market, and maintain them. At a higher level there needs to be common rules to guide and motivate its property managers so that the same guidelines regarding economic efficiency and other values are applied throughout the organisation. This view is supported by Shenhav [19], who applies mechanical engineering methods to the management of assets, believing that there is a need for coherence and autonomy in an asset management system. This suggests that one of the key dimensions of asset management is regulatory compliance, where it is crucial for employees to adhere to standardised procedures and specifications in order to ensure optimum asset performance. This leads to the need of accountability as a monitoring function where decision makers are held accountable for any asset related decisions.

From the discussion of definitions and identified assumptions of state asset management above it can be concluded that key dimensions (or principles) of state asset management are: regulatory compliance, efficiency, asset life cycle, performance and costs, stewardship, and information systems.

Dunis and Miao [20] believe that governance can be utilised as an analytical framework to assess management processes and systems. Governance potentially provides a platform for this integration as it is based on key dimensions which without them have proved to result in the collapse of many corporations [21-24]. There is also evidence of a positive link between governance and organisational outcomes, in particular in the form of performance indicators [25], and profit maximisation, premium investments, and stock returns [26].

Vast evidence of governance principles' flexibility in being translated and applied to different types of organisations exists [22]. At present there is limited literature that explicitly explains the application of governance dimensions in state asset management, however there is evidence of it in other types of asset management. In the examples below, Eisenhardt's [27] opinion of what governance is – “it is an information system that is designed as a means of monitoring managerial performance to detect dysfunctional decision making, where its mechanisms can be employed to monitor, control and observe the actions of managers in order to identify those who fail to maximise firm value” is referred to. Loistl and Petrag [28], investigated the conceptualisation of good governance principles within the management of financial assets, where they emphasized the importance of accountability, transparency, and stakeholder participation in managing financial assets. Marlow and Burn [29] researched the need for an integrated approach on water and water-waste infrastructure management, recognising corporate governance as a one of the many frameworks that may be used to integrate business and technical approaches in asset management. It is also evident that governance is being considered in the management of physical assets, signified by infrastructure providers emphasising occupational health and safety standards and publicly introducing a governance management framework [6, 30-32]. Cornish and Morton [6], Woodhouse [30, 7], and BSI [31] also contributed to the literature that attempts to explain and exemplify the relationship between governance principles and asset management through a concept termed as asset governance and the introduction of PAS 55. However further comparisons between governance principles and asset governance frameworks such as PAS 55 or one that is introduced by Cornish and Morton [6] yielded the infancy of asset governance as each framework emphasise different good governance principles – hence a far cry from a holistic governance approach – and application of either framework is riddled with challenges [32-34, 29]. This finding is in line with that of Wittwer, Bittner et al [35], as they identify three main obstacles in conceptualizing and implementing new asset governance policies. for example, identifies three main obstacles: 1) budgets that force doing more with less or doing things smarter, 2) accountability problems when no one – and everyone – is in charge, 3) technology which brings with it great potential, but also potential burden if there is limited understanding. Wenzler [36] adds to this list by identifying four further obstacles: 1) alignment of strategy and operations with stakeholder values and objectives, 2) balancing of reliability, safety, and financial considerations, 3) benefiting from performance-based rates, and 4) living with the output-based penalty regime.

### **3. HISTORY OF INDONESIAN STATE ASSET MANAGEMENT**

This section focuses on outlining the history of state asset management practices in Indonesia prior to its reform in 2006. This section will introduce the Five Year Development Plan (REPELITA) and discuss state asset management as identified in the development plan– in particular highlighting the main mischief found.

Indonesia's economy and development is largely shaped by the Five Year Development Plan (REPELITA) since its first inception in 1969, whereupon Indonesia is now in its 8<sup>th</sup> Five Year Development Plan (REPELITA). According to Sumarlin [37] since the introduction of REPELITA the management of Indonesia's economy has been directed to few targeted strategic goals such as:

1. Strengthening the economy through its fundamental income of the agriculture sector, with the aim of forwarding its infrastructure and technology sectors.
2. Increase state capability and capacity in primary, secondary, and tertiary industry.
3. Invest the national budget on public infrastructure by building at a national level. Examples include assets that will allow the government to perform its function (i.e provide public services to the society) and contribute to sectors such as education, housing, health, transportation, communication, and financial services.
4. Maximum benefit from natural resources by competent exploitation and marketing.

Based on the list of main objectives found in all REPELITA's above, two main observations regarding state assets and its management are made. Firstly state assets (in the form of public infrastructure) is recognised in the five year plan, however there is only acknowledgement of building and acquiring further assets without an acknowledgment (or planning) of how to manage and maintain said asset. Therefore it can be observed that within the five year development plan itself there is a low level of ownership and maintenance 'culture'. Secondly state assets are not recognised as a source of income and wealth,

which is exemplified by the under-developed inventory system and formal asset management practices within the national development plan. This to a certain extent explains why there is a low level of ownership and maintenance culture, as the object (i.e state assets) is not considered 'high value'.

According to Hadiyanto [8] Indonesia recognises state assets as:

- a) Everything tangible and intangible (asset) that is bought or financed from the national budget or any other lawful income; and is utilised by the government, or any other authorised third party.
- b) State assets have a narrower definition than "state wealth" as per law/legal terms, however is wider than "fixed assets" as per accounting terms
- c) State assets can be known by many different accounts in accounting terms: fixed assets, liquid assets, and other / miscellaneous assets.

It is acknowledged that the years of 1970s-1990s is known as the year of development, where there was an emphasis on building and developing state assets and public infrastructure to support the role of government or government programs of the day [8]. In the late 1990s the central government started to acknowledge the importance of accountability and financial reporting, as well as compliance reporting. Hence they introduced a simplistic inventory system for state asset management—manually executed and based on single entry bookkeeping. The simplistic state asset management practice and expansion of what entails state assets was evident during the Soeharto period, for approximately 32 years of his regime. However it is also noted that during that time transparency, accountability, and maintenance was not evident as the main focus, be it by the government or the society itself [38]. The state government focused on building, however did not have the framework to manage what was built – for example at the time there was no requirement for asset reporting or inventory keeping of state assets. Hence this shows that historically there has been, to a certain extent, a slight neglect of state asset management.

#### **4. REFORM OF INDONESIAN STATE ASSET MANAGEMENT LAWS AND POLICIES AND GOVERNANCE**

Hadiyanto [8] documented reform in state asset management dating back from 2004, with Constitution number 1 year 2004 on State Treasury as a reform locomotive. However Hadiyanto [8] also commented that activities in state asset management policies and practice is still minimal after the introduction of said constitution on state treasury, where time was devoted more to conceptualizing laws, policies, and technical guidelines for said laws and policies as opposed to practice and/or implementation of the constitution. It is with the introduction of Law no 6 year 2006 on state asset management that state asset management reform in Indonesia 'officially' started [8], where the law broadly discusses the following:

- a) State asset management includes activities such as budgeting, acquisition, utilisation, maintenance and monitoring, valuation, disposal, change/hand over, administration/inventory, control mechanisms, and capacity building function.
- b) Introduction of an asset manager role, where the directorate general of state asset management is named asset manager, in a bid to ensure professionalism in state asset management practices.
- c) Integration of managerial and reporting aspects in state asset management in financial reporting as part of accountability

State asset management policies are further reformed through the establishment of Law 38/2008. Based on the most recent law governing state asset management Hadiyanto [8] define strategic state asset management as the integration of functions such as planning, budgeting, maintenance, information system, disposal, and accountability of state asset management that puts forward the principle of "the highest and best use of assets". This definition is within the corridor of asset management definitions, such as the definition offered by Cagle [17], Komonen, Kortelainen, and Raikkonen [39]; Lin, Gao, Koronios, and Chanana [40], Jabiri, Jaafari, Platfoot, and Gunaratnam [41], and others.

The concept of ensuring accountability and the highest and best use of asset is also in line with how Loistl and Petrag [28], Cornish and Morton [6], Woodhouse [30, 7], and Marlow and Burn [29] describe the integration of good governance principles with asset management. This indicates a positive start for Indonesia's state asset management reform, however one needs to be slightly cautious based on past performances of introducing new reforms [42].

The Indonesian government has considered the below points to be crucial in improving current state asset management practices [8]:

- a) Increase in society participation – there is a need for the society to increase their level of custodianship and ownership of state-assets.
- b) Increase the level of coordination and participation between different institutions
- c) Establishment of continuous financial support (that is of consistent amount) from the government to other relevant institutions to finance maintenance of state assets.
- d) Provision of data and information system that is accurate, real, and accessible.
- e) Establish a set of norms, standard, guidelines, and manual within the context of state asset management practices.

- f) Stronger rule of law in the rules and regulations that govern state asset management practices.
- g) Further alignment with good governance principles and incorporation of such principles in state asset management rules and regulations.

As explained in the introduction section of this paper, the Indonesian government vocalized its support towards a state asset management reform by establishing a pioneering dedicated body to state asset management. The Directorate General of State Asset Management (DJKN) was established on 7<sup>th</sup> December 2006, where according to Hadiyanto [8] they have a heavy and difficult task of fixing a state asset management practice that has been neglected for several decades. Section 4 has also identified that there are past state asset management issues that are in need of dire solutions, in particular in the area of governance [43]. Hadiyanto [8] believes that a conventional approach is not sufficient; there is a need for a thorough and massive reform, particularly in the form of implementing a new set of rules and regulations. In response to this need the Directorate has formulated a Roadmap Strategic Asset Management, which provides a long term outlook and direction to state asset management practices and also details the outcome targets that measure the success of the reform. The idea of strategic asset management is supported by Marlow and Burn [29] as they found that setting such a direction has assisted in establishing a more efficient and effective water waste management system in many countries such as the USA, UK, Australia, and New Zealand. From the objective of achieving long term strategic asset management, the directorate general has extracted a short and medium term framework which outlines the output targets – acting as the key performance indicator (KPI) of the directorate general. This outlook is better known as the directorate general of state asset management roadmap, which outlines how the directorate general will achieve strategic asset management. The roadmap was created based on a short-medium term timeframe, from 2006 (the conception of the directorate general) until 2010. Table 1 details the roadmap.

Table 1. Directorate General of State Asset Management Road Map to Strategic Asset Management [8]

Year	Action Plan
2006	Conceptualisation of the directorate general
	Establish formal laws and decrees Prepare resources (i.e human capital, financing, administrative matters, etc)
2007	Finalise and complete organisational attributes
	Initiate inventorying process of all state assets and build necessary database
2008/2009	Continue inventory process and building of database
	Establish an internal control mechanism and aspects of state asset management practices
	Establish an efficient and effective state asset management practice that is accountable
2010	Integrate planning – budgeting and planning of state assets
	Optimise state asset management practices by aiming for highest and best use of asset

Although a positive beginning in the journey of state asset management reform, the Directorate general has identified certain conditions that must happen in order for the above strategic roadmap to eventuate. These conditions [8, 44] are as below:

1. Establishment of governing decrees or regulations, systems and work procedures, and human capital and technology infrastructure within the first year. It is noted that that this stage is still in process, with a disclaimer exclaiming “such a change will require time” [8].

2) Establish a state assets database that is up-to-date, accurate, and reliable. Part of the economic and political reform in 2007 concentrated on three main aspects: administrative compliance, legal/lawful compliance, and documented utilisation of asset management (reporting compliance). This program is identified as a heavy task for the directorate since the inventory system for state assets is deemed to be incomplete (i.e manual recording and single entry bookkeeping since 1994) [44].

3) Socialization of strategic goals in reaching optimum state asset management to the general public, which include:

a) **The highest and best use of asset.** This means re-evaluation of current state assets when a need for a particular asset is identified, in terms of whether there is already an asset within the inventory database that would be able to fulfill the need.

b) **Three measures of efficient and effective national budget.** This include: a decrease in capital expenditure and maintenance, an increase in non-tax income through utilisation of state asset, and an increase in miscellaneous income through underlying assets in the form of state asset certificates.

Following on from the conditions set by the Directorate general, observation and analysis of the roadmap's KPI result in the following findings:

1. The first two years (2006-2007) is concentrated on establishing the necessities of a department, such as presidential decree and necessary resources. This suggests strength of rule of law is given considerable attention and (to a certain extent) the infancy of an established state asset manager.

2. Through Constitution number 6/2006 the Directorate established its direction. Good governance was mandated as a basic principle in the decree, further re-iterated in revised Constitution 38/2008. However the conceptualisation and implementation of good governance principles are not explicitly evident in the road map.

3. The Directorate has embarked on an inventory system, moving to a database that is reliable, accurate, and available to the public. Although this shows that the Directorate is acting upon an identified problem from past state asset management practices (i.e under-developed inventory system) it is not clear how the inventory system will be managed and updated, what kind of information is included in the inventory system, and how information from the inventory database will be utilised. Therefore there is a need for further clarification on how the establishment of such a system will a) exhibit good governance principles and b) support the road to strategic asset management.

4. The Directorate has identified the establishment of an internal control mechanism (year 2008-2009) for state asset management practices, however it is yet to identify a control mechanism for the Road Map itself, there is still a need to establish an evaluation mechanism.

5. Each KPI provides a general statement of what is to be achieved, however without details on how each KPI will be achieved and in particular no explicit reference to good governance principles.

Therefore it is concluded that although the Directorate General of State Asset Management has established its long term goal (strategic asset management) and identified short/medium term key performance indicators (the road map), there is still a need to further explain; a) how each KPI would be achieved, b) how each KPI lends itself as a springboard to strategic asset management, and most importantly c) how good governance principles are conceptualised in each KPI.

## **5. INDONESIAN POLITICAL HISTORY, BUREAUCRATIC CULTURE, AND THE DECENTRALIZATION REGIME**

Herwidayatmo [45] stated that the level of compliance towards good governance has become a main consideration in playing in a global economy arena. Indonesia's governance system prior to the Asian financial crisis in 1997 operated under a regime in which state institutions neglected good governance and the rule of law, where the state managed essential parts of the corporate sector, and corruption was allowed to rule over common interests [46, 12, 47].

The central government amended the 1945 constitution to incorporate good governance principles in its clauses. For example the government introduced Constitution 22/1999 on Regional Government and Constitution 25/1999 on Fiscal Balance between the Regions and the Central Government, and Constitution 1/2004 on state treasury matters which provides clear provisions that are designed to deter fraud, mismanagement, or corruption; and increase accountability and transparency [48-51, 43], and introduced foreign institutions to assist in forming good governance codes that are in line with international good governance standards [11, 57].

In a bid to further increase democracy and good governance implementation, the Indonesian government introduced a decentralization and regional autonomy regime in 2001. Decentralisation and regional autonomy is ruled by constitution number 22 year 1999 on governing of regions/provinces (UU 22/1999 Pemerintahan Daerah) and constitution number 25 year 1999 on fiscal balance between central government and regional government (UU 25/1999 Perimbangan Keuangan Pusat dan Daerah), where its implementation is considered to be crucial in the process of reform after the 1997 financial crisis [58]. This regime changes the governing of the country from a centralised nature to that of a decentralised nature, in every area of government mandate/role other than: international politics, security and defence, religion, monetary fiscal, and the law; as well as a change in the financing between central and regional government. The main aim of decentralisation is to simplify and increase efficiency of public service provision as due to decentralisation public service can be provided by the

regional government, which is deemed to be within a closer proximity – both in physical and psychological distance – to the regional society [58].

Several challenges faced by regional governments' post-decentralisation and regional autonomy are inevitable [59, 60], with the revitalisation of the decentralisation and regional autonomy process through the revision of the two original constitutions (Constitution 22/1999 on Regional Government and Law 25/1999 on Fiscal Balance between the Regions and the Central Government) to constitution number 32 year 2004 on governing of regions/provinces (UU 32/2004 Pemerintahan Daerah) and constitution number 33 year 2004 on fiscal balance between central government and regional governance (UU 33/2004 Perimbangan Keuangan Pusat dan Daerah). According to Mardiasmo [61] the six main targets addressed within these constitutions are:

1. Synchronisation and harmonisation of constitutions, rules and regulations between central and regional government.
2. Increase coordination between regional governments
3. Establishment of regional government institution that is effective, efficient, and accountable
4. Increase the capacity of regional government officials, with the aim of increasing professionalism and competency.
5. Management of financial resources and the financing of development that is transparent, accountable, and professional.

Indonesia is categorised as a former centrally planned economy, where it has been acknowledged that there is a pressing need for state asset management improvement at a local level [9]. Due to decentralisation and regional autonomy regime regional governments have become the largest real property owners in the urban areas. However it is noted that more often than not these regional governments are premature in the institutional, financial, and knowledge base that are necessary for assuming their role as guardian and manager of public wealth [9]. This view is strengthened by Siddik [62], where he provides a possible explanation as to how decentralisation and regional autonomy regime in Indonesia might have an impact on state asset management disparity between regional governments. Siddik [62] commented that decentralisation and regional autonomy has resulted in a discrepancy between regional governments in terms of capability, capacity, and resources (human, capital, and financial). Such a discrepancy has resulted in a disparity in how the region creates wealth, whether it is through foreign direct investment, domestic product, or other means of wealth creation.

In regards to state asset management practices, a particular concern is the ambiguity in the divide of authority between central and regional government. Decentralisation and regional autonomy regulatory constitution (Constitution 22/1999 on fiscal balance between central government and regional government) has neglected to address the hierarchy (of power and authority) between district and city authorities and regional/province authorities [58]. Regional government's authority in many sectors is still questioned due to deficiency in the rules and regulation that transfers the authority (regarding a particular sector) from central to regional government, in particular as many sectors are not mentioned in the two constitutions that governs decentralisation and regional autonomy (UU 32/2004 and UU33/2004). This causes a few problems in areas such as ownership and authority, management of regional budget, the management of a particular area or provision of a particular public service, dispersion of natural resources and tax income, and many others. This ambiguity has also resulted in the overlap of authority between central and regional government, which has resulted in several conflicts in regards to the implementation of a rule or a regulation – for example in sectors such as education, human resources, public employment, land ownership, investments, forestry, and mining.

This is said to be an urgent concern of the directorate general of state asset management (DJKN) as they have acclaimed the role of asset manager (to all state assets within Indonesia) and therefore needs to further coordinate the management of state assets with regional governments[8].

Before the directorate general of state asset management can decide on a course of action there are certain considerations to consider. These include factors such as: 1) discrepancy in the level of human resource capacity and financial capacity of regional governments; 2) custodianship/ownership of state assets - one of the main critiques found by Mardiasmo [61] regarding the relationship between central and regional government is that regional government believes there are times when central government partakes in decision or the management of a particular sector “where it was not their place to do so” – thus central government is aware of the possible “dangers” in “overstepping” its authority; 3)community traditions which may prevent the directorate general to apply particular rules and regulations to “protected” assets. The directorate general thus posed the question of what method would prove to reflect good governance principles and is also the most effective and efficient in managing state asset management practices at a regional government level.

Following on from the challenge identified above, one of the main issues in introducing state asset management reform is the role of the directorate general as an asset manager [8]. Although that is the common role for an authority that manages a certain asset, the definition of what is an asset manager and its specific role is still questioned. Cornish and Morton [6] for



example separated the ownership and control of an asset into three tiers: asset owner, asset governor, and asset manager. According to Cornish and Morton [6] the asset owner is typically the owner of major sets of utility assets, whose main strategic objective is to seek profit or expand its service. The asset owner does not normally wish to, or have the expertise to, concern itself with the detailed financial, regulatory, or technical management of the assets. The asset manager handles the day-to-day and floor level operations of the asset division whilst ensuring that all decisions made are in line with the vision of the asset governor and asset owner. The directorate general has claimed the role of an asset manager in Indonesia's state asset management reform, however a clear definition of what is an asset manager within this context and what is its specific role is not found. It is also considered that the role of an asset manager is typically one that is embodied within a person as part of a management group in an organisation (for example within the works of Woodhouse [30]; Komonen, Kortelainen, and Raikkonen [39]) as opposed to an institution delegating itself the role of an asset manager. Therefore it is questioned whether due to the circumstances of the directorate general and the direction of state asset management reform in Indonesia there could potentially be a new meaning to the term asset manager and the role and responsibilities it carries.

## **8. IDENTIFIED CHALLENGES IN STATE ASSET MANAGEMENT REFORM**

Prior to exploring the myriad of identified challenges underpinning current state asset management reform strategies in Indonesia, it is clear that there is one over-arching challenge that the Indonesian government must face prior to addressing any other challenges. It is the notion that for the Indonesian government, state asset management practices, or rather the equal understanding and implementation of it, is still considered to be a 'wicked problem' that they have just started to address. Here the notion of 'mischief' can be likened to that of 'wicked problems' in public management literature [63]. 'Wicked problems' are associated with divergent understanding of aims and means among many decision makers [64], modern social problems that are generally ill-defined [65], is a product and example of institutional complexity, and generates substantive, strategic, and institutional uncertainty [66, 67]. Thus 'mischief' is contextualised as potential challenges that are faced by a government (or an organisation) due to the infancy or 'developing-in progress' status of a particular system; where the challenges are at times poorly defined, caused by low level of knowledge or understanding, and high level of uncertainty is attached to any potential solutions.

Thus it is perhaps not the state of state asset management law and policy infancy that is the main issue, rather the perception that state asset management is a 'wicked problem' might undermine the confidence in socializing state asset management practices to Indonesian society at large and implementing 'in-process' rules, regulations, and technical guidelines. It is perhaps the underpinning perception that (current state asset management policy) 'it is not perfect yet' and 'we need to learn from other more (in state asset management) established countries' that is actually hindering the conceptualization and (perhaps trial and error) implementation of reformed state asset management practices.

Mardiasmo [62] warns that any implementation considered to be a "reform", no matter in what area, will take time to happen as Indonesia itself is still going through a thorough economic, political, and societal reform. Hadiyanto [8] agrees with this as the possibility of improving state asset management practices and revising the goals of reform due to internal and external factors is still very high. This dynamic is considered to be a challenge by the directorate general as an asset manager in terms of ensuring a smooth process between each stage of the strategic asset management roadmap, as well as ensuring that the implementation of each stage and any changes within it is consistent with the end goal of strategic asset management[44]. Ritonga [68] further explains that standardisation (of state asset management practices) will have to be done in certain stages, which is considered to be a norm in any reform that is implemented in Indonesia. This is true based on the findings of Mardiasmo [69] on the subject of good governance implementation in Indonesian regional governments, where there was a need to roll out the implementation plan in various stages during a long term timeframe. To a certain extent Ritonga's [68] opinion contrast that of Hadiyanto's [8], in regards to Indonesian governments preferring a big bang shock therapy in reforms. However it is possible that Hadiyanto [8] is referring to the initial stage of ideas (beginning/short term), whereas Ritonga [68] refers to the actual implementation (medium/long term) of the reform.

Upon reflecting on discussion of Indonesia's state asset management reform thus far, four main mischief are identified. Firstly it is observed that there are incomplete approaches to accountability in government practices is visibly noted on many occasion [38, 8, 44], which suggests that there is the possibility of limited knowledge on how accountability is conceptualised within state asset management laws – especially how to implement it within the context of state asset management. Secondly it is observed that economic regulations are favouring short term planning that has resulted in aggressive, exploitative, and expansive production and consumption of natural resources and state assets which decreases the life-span and conservation conditions of natural resources and state assets [38]. Therefore based on analysis of past state-assets related regulations alone, there is a high culture of building and acquiring state assets, as well as maximizing its utilization; however low culture of stewardship or maintenance.

Four main state asset management practices documents: a) constitution 6/2006, b) constitution 38/2008, c) directorate general of state asset management mission and vision, and d) directorate general of state asset management roadmap to strategic asset management; were analysed, whereupon an interesting and important observation was made. The four

documents were similar in two ways. Each document stressed the importance of adhering to good governance principles in the conceptualisation and implementation of state asset management practices. Also all documents do not, or have failed to, explained what is meant by good governance principles, which principles (if not all good governance principles) is adhered to, and how these principles will be conceptualised in the new state asset management practices. Therefore a third challenge in Indonesia's state asset management reform is that there is knowledge of the need to adhere to good governance principles, however there was a high level of ambiguity as to how good governance principles will be (or is) conceptualised in reformed state asset management laws, policies, and practices.

Lastly, due to the variance in regional resources and policy vision/objectives, the introduction of decentralization regime in 2001, there are several complexities that decentralisation may pose in terms of country-wide state asset management reform understanding and implementation. It is therefore necessary to understand the factors that add to the complexity and answer the question of how identified complexities can be mitigated in order to ensure equal levels of state asset management practices understanding and implementation.

## 8. CONCLUSION AND FUTURE RESEARCH

The increasing importance of an integrated governance and state asset management approach is recognised by various governments around the world. Indonesia is no exception, pledging its adherence to good governance principles within its newly reformed state asset management laws and policies. It is clear from the discussion on Indonesian state asset management reform, and in particular the conceptualization of governance principles within state asset management laws, policies, and implementation guidelines, that this particular research area is of high interest not only from the Indonesian government point of view but also in providing further knowledge in the realm of integrated governance and asset management approach. However this research is still at its preliminary stage, where there is further need for empirical research in Indonesia involving the directorate general of state asset management and various regional governments as case studies in order to provide an in-depth understanding of the contributing factors and challenges in state asset management reform.

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