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An Integrative Conceptual Model for the Management of Regional Public Service Agencies (BLUD): A Synthesis of New Public Management, Good Governance, Agency Theory, Stewardship Theory, and Public Value Theory

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Abstract

Regional Public Service Agencies (BLUDs) are a major public sector reform in Indonesia designed to improve healthcare quality, efficiency, and sustainability through greater managerial and financial flexibility. However, BLUD governance remains complex and cannot be fully explained by a single theoretical perspective. This study develops an Integrative Governance Framework by synthesizing New Public Management, Good Governance, Agency Theory, Stewardship Theory, and Public Value Theory. Using a conceptual approach, the framework explains how managerial flexibility, governance quality, leadership orientation, and organizational capacity interact to influence BLUD performance. The model proposes that these factors collectively generate public value through improved service quality, organizational efficiency, fiscal sustainability, public trust, and societal well-being. The study offers a comprehensive foundation for future empirical research on sustainable BLUD governance.

Keywords: Regional Public Service Agency (BLUD), New Public Management, Good Governance, Agency Theory, Stewardship Theory, Public Value, Healthcare Governance, Public Sector Reform.

1. Introduction

Public sector reforms have encouraged governments worldwide to improve the effectiveness, efficiency, and accountability of public services. In Indonesia, the establishment of Regional Public Service Agencies (Badan Layanan Umum Daerah/BLUD) represents an important reform that provides greater managerial and financial flexibility to public healthcare organizations, including Regional General Hospitals (RSUDs) and Community Health Centers (Puskesmas).

Despite their growing importance, the management of BLUD institutions remains complex. These organizations must simultaneously achieve service quality, financial sustainability,

Vol. 10, No.08; 2026

ISSN: 2456-7760

accountability, efficiency, and public trust. Existing studies have examined BLUD management from separate theoretical perspectives, such as New Public Management, Good Governance, Agency Theory, Stewardship Theory, and Public Value Theory. However, these approaches provide only partial explanations and fail to capture the multidimensional nature of BLUD management.

This study addresses this gap by developing an Integrative Conceptual Model for BLUD Management that synthesizes these five theoretical perspectives into a unified framework. The model aims to explain how managerial flexibility, governance quality, accountability mechanisms, leadership orientation, and organizational capacity interact to improve organizational performance and create public value in BLUD institutions.

2. Literature Review and Theoretical Foundations

2.1.Regional Public Service Agencies (BLUD) as a Public Sector Reform Instrument

Public sector reforms have encouraged governments to improve efficiency, accountability, service quality, and fiscal sustainability. In Indonesia, the establishment of Regional Public Service Agencies (Badan Layanan Umum Daerah/BLUD) represents an important institutional reform designed to provide greater managerial and financial flexibility while maintaining public service responsibilities. Through this mechanism, BLUD institutions, particularly Regional General Hospitals (RSUDs) and Community Health Centers (Puskesmas), are expected to enhance service quality, responsiveness, innovation, and operational efficiency.

However, increased managerial autonomy also creates governance challenges, as greater flexibility must be balanced with accountability, oversight, and organizational capacity. Therefore, understanding BLUD management requires a comprehensive theoretical perspective that explains both managerial flexibility and public accountability. This study argues that no single theory adequately captures the complexity of BLUD management, making an integrative approach necessary to explain its multidimensional governance and performance dynamics.

2.2. New Public Management

New Public Management (NPM) emerged as a major public sector reform paradigm emphasizing efficiency, effectiveness, managerial autonomy, performance measurement, and customer-oriented service delivery (Hood, 1991). The central premise of NPM is that public organizations can achieve better outcomes when managers are granted greater flexibility and held accountable for measurable results.

In the context of BLUD institutions, NPM is reflected in financial flexibility, performance-based budgeting, flexible procurement, and autonomous resource management. These mechanisms are intended to improve responsiveness, operational efficiency, and service innovation. However, excessive emphasis on efficiency and performance may weaken accountability, transparency, and broader public values. Therefore, while NPM provides an important foundation for BLUD

Vol. 10, No.08; 2026

ISSN: 2456-7760

management, its application must be complemented by governance mechanisms that ensure organizational performance remains aligned with public accountability and societal interests.

2.3. Good Governance

The concept of Good Governance emerged as a response to the limitations of purely managerial approaches to public sector reform. While New Public Management focuses primarily on efficiency and performance, Good Governance emphasizes accountability, transparency, participation, rule of law, responsiveness, equity, and legitimacy.

The United Nations Development Programme (UNDP, 1997) defines Good Governance as the exercise of economic, political, and administrative authority in managing public affairs at all levels. Governance is considered "good" when institutions operate transparently, responsibly, inclusively, and effectively in serving public interests.

Within public healthcare organizations, Good Governance serves as a critical mechanism for ensuring that managerial flexibility is exercised responsibly. Accountability systems enable stakeholders to monitor organizational performance. Transparency promotes public trust and reduces opportunities for corruption and misuse of authority. Participation encourages stakeholder engagement in decision-making processes, thereby improving the legitimacy of public policies and organizational actions.

For BLUD institutions, Good Governance is particularly important because healthcare organizations manage substantial public resources while simultaneously serving highly sensitive public needs. Decisions regarding healthcare financing, service delivery, procurement, and resource allocation directly affect community welfare and therefore require strong governance safeguards.

Several studies have demonstrated that effective governance contributes significantly to organizational performance and public trust. Organizations characterized by transparent decision-making processes, strong accountability systems, and active stakeholder engagement tend to achieve better outcomes and enjoy greater legitimacy among citizens.

Accordingly, this study considers Good Governance not merely as a complementary framework but as an essential balancing mechanism that ensures managerial flexibility contributes to public value creation rather than organizational opportunism.

2.4. Agency Theory

Agency Theory, developed by Jensen and Meckling (1976), explains accountability relationships that arise when a principal delegates authority to an agent to perform specific tasks. The theory highlights potential agency problems, including information asymmetry, adverse selection, and moral hazard, resulting from differences in interests and information between principals and agents.

Vol. 10, No.08; 2026

ISSN: 2456-7760

In the BLUD context, regional governments, legislative bodies, and citizens act as principals, while hospital directors and BLUD managers serve as agents responsible for managing public resources and delivering healthcare services. Although managerial delegation can improve organizational performance, it may also create governance risks when oversight mechanisms are inadequate. Therefore, BLUD institutions require effective accountability and monitoring systems, such as internal controls, supervisory boards, audits, performance evaluations, and transparent reporting. Agency Theory thus emphasizes the importance of ensuring that managerial discretion remains aligned with public interests (Jensen & Meckling, 1976).

2.5.Stewardship Theory

Stewardship Theory, developed by Donaldson and Davis (1991), offers an alternative perspective to Agency Theory by arguing that managers are often motivated by professional values, organizational commitment, and collective goals rather than self-interest. The theory assumes that organizational leaders derive satisfaction from achieving organizational success, stakeholder welfare, and long-term sustainability.

In the context of BLUD institutions, stewardship behavior is reflected in leadership practices that emphasize service quality, patient satisfaction, organizational integrity, and community welfare. The theory highlights the importance of trust, empowerment, collaboration, and public service motivation in enhancing organizational performance. It also suggests that excessive monitoring and rigid controls may reduce managerial motivation and innovation. Therefore, effective BLUD management requires a balance between accountability mechanisms emphasized by Agency Theory and trust-based leadership approaches emphasized by Stewardship Theory (Donaldson & Davis, 1991).

2.6.Public Value Theory

Public Value Theory, introduced by Moore (1995), expands the evaluation of public sector performance beyond efficiency and administrative compliance by emphasizing the societal value created through public services. The theory argues that the primary purpose of public organizations is to enhance social welfare, public trust, equity, legitimacy, and collective well-being.

In the context of BLUD institutions, public value is reflected in improved health outcomes, expanded access to healthcare, efficient use of public resources, institutional trust, accountability, and organizational adaptability. Thus, healthcare organizations are evaluated not only by operational efficiency but also by their contribution to community welfare. Public Value Theory provides a comprehensive framework linking managerial practices and governance mechanisms to broader societal outcomes. Consequently, it serves as the ultimate outcome perspective within the proposed integrative model of BLUD management (Moore, 1995).

Vol. 10, No.08; 2026

ISSN: 2456-7760

2.7.Towards an Integrative Governance Framework for Sustainable BLUD Management

The preceding theories provide complementary explanations of BLUD management but are insufficient when applied independently. New Public Management emphasizes managerial flexibility (Hood, 1991), Good Governance focuses on accountability and transparency, Agency Theory highlights monitoring and control mechanisms (Jensen & Meckling, 1976), Stewardship Theory stresses trust and professional commitment (Donaldson & Davis, 1991), while Public Value Theory emphasizes societal outcomes (Moore, 1995).

To address these limitations, this study proposes an Integrative Conceptual Model for Sustainable BLUD Management. As illustrated in Figure 1, the model suggests that institutional environments shape managerial flexibility, which is strengthened through governance mechanisms and influences managerial behavior. The interaction of these factors develops organizational capabilities, including service quality, innovation, efficiency, accountability, organizational resilience, and fiscal sustainability. These capabilities subsequently generate public value and ultimately contribute to sustainable healthcare performance. The model therefore provides a holistic explanation of how governance, leadership, and organizational processes collectively create long-term public value within BLUD institutions.

3. Integrative Governance Framework and Theoretical Propositions

The Integrative Governance Framework developed in this study provides a theoretical foundation for understanding the governance dynamics of Regional Public Service Agencies (BLUDs). By synthesizing New Public Management (Hood, 1991), Good Governance, Agency Theory (Jensen & Meckling, 1976), Stewardship Theory (Donaldson & Davis, 1991), and Public Value Theory (Moore, 1995), the framework explains how managerial flexibility, governance quality, accountability, leadership behavior, and organizational capabilities contribute to sustainable healthcare performance and public value creation. Based on this framework, several theoretical propositions are proposed for future empirical testing.

The propositions developed in this study explain how managerial flexibility, governance quality, accountability, and leadership behavior contribute to sustainable healthcare performance and public value creation within BLUD institutions.

Proposition 1: Managerial Flexibility and Organizational Performance

Consistent with New Public Management, managerial flexibility in financial management, budgeting, procurement, and resource allocation enhances organizational performance by improving service quality, operational efficiency, and innovation (Hood, 1991).

Vol. 10, No.08; 2026

ISSN: 2456-7760

Figure 1. An Integrative Conceptual Model for the Management of Regional Public Service Agencies (BLUD): A Synthesis of New Public Management, Good Governance, Agency Theory, Stewardship Theory, and Public Value Theory

***Proposition 1*:** Managerial flexibility positively influences organizational performance within BLUD institutions.

Proposition 2: Good Governance as a Moderating Mechanism

The effectiveness of managerial flexibility depends on governance quality. Good Governance principles—including accountability, transparency, participation, responsiveness, and compliance—ensure that managerial discretion remains aligned with public objectives and minimizes governance risks.

Vol. 10, No.08; 2026

ISSN: 2456-7760

> ***Proposition 2*:** The positive relationship between managerial flexibility and organizational performance is strengthened by the effective implementation of Good Governance principles.

Proposition 3: Accountability and Principal–Agent Alignment

Agency Theory suggests that accountability mechanisms reduce information asymmetry and agency conflicts between organizational managers and public stakeholders (Jensen & Meckling, 1976). Effective monitoring and transparent reporting improve stakeholder oversight and managerial alignment.

> ***Proposition 3*:** Strong accountability mechanisms reduce agency problems and improve alignment between organizational managers and public stakeholders.

***Proposition 4*: Stewardship-Oriented Leadership and Organizational Effectiveness**

Stewardship Theory suggests that leaders motivated by professional commitment and public service values are more likely to promote organizational success and stakeholder welfare (Donaldson & Davis, 1991). In BLUD institutions, stewardship-oriented leadership fosters trust, collaboration, innovation, and long-term organizational development.

> ***Proposition 4*:** Stewardship-oriented leadership positively influences organizational effectiveness by strengthening commitment, trust, and public service orientation

Proposition 5: Organizational Capabilities as Strategic Mediators

The proposed framework posits that managerial flexibility, governance quality, and leadership behavior contribute to the development of organizational capabilities, including service quality, operational efficiency, innovation, accountability, organizational resilience, and fiscal sustainability. These capabilities serve as strategic mediators linking governance processes to organizational outcomes.

> ***Proposition 5*:** Organizational capabilities mediate the relationship between governance mechanisms and sustainable healthcare performance.

Proposition 6: Public Value Creation as the Ultimate Governance Outcome

Consistent with Public Value Theory, the ultimate objective of BLUD management is the creation of public value rather than merely achieving administrative efficiency (Moore, 1995). Public value is reflected in improved health outcomes, equitable access, public trust, institutional legitimacy, and community welfare.

> ***Proposition 6*:** Public value creation represents the ultimate outcome of effective BLUD governance and sustainable healthcare management (Moore, 1995).

Vol. 10, No.08; 2026

ISSN: 2456-7760

4. Discussion and Strategic Implications for BLUD Governance

4.1.Reinterpreting BLUD Through an Integrative Governance Perspective

The performance of Regional Public Service Agencies (BLUDs) cannot be explained solely by managerial flexibility, despite its central role within the BLUD model. Empirical experience shows that while some BLUD institutions achieve improvements in service quality, innovation, and financial sustainability, others continue to face governance, accountability, and operational challenges.

These differences indicate that organizational performance is shaped not only by managerial discretion but also by the interaction of governance mechanisms, leadership behavior, organizational capacity, and accountability systems. The Integrative Governance Framework developed in this study therefore reconceptualizes BLUD as a comprehensive governance system rather than merely a financial management mechanism. Within this perspective, managerial flexibility must be balanced with effective governance, professional leadership, accountability, and public value creation to achieve sustainable healthcare performance.

4.2.The Governance Paradox of BLUD Institutions

One of the key challenges in BLUD management is the governance paradox between managerial flexibility and public accountability. Healthcare organizations require flexibility to respond effectively to changing service demands, technological developments, and resource constraints. At the same time, as managers of public resources, BLUD institutions must remain accountable to governments, oversight bodies, service users, and society.

Excessive bureaucratic control may hinder innovation and responsiveness, whereas excessive autonomy may increase governance risks and weaken accountability. Therefore, the primary governance challenge is not choosing between flexibility and accountability, but achieving an appropriate balance between them. The proposed Integrative Governance Framework addresses this challenge by combining the managerial flexibility emphasized by New Public Management with the accountability and transparency principles of Good Governance, thereby supporting sustainable and effective BLUD management.

4.3. Strengthening Organizational Resilience in Healthcare Institutions

The COVID-19 pandemic demonstrated that healthcare organizations must possess not only operational efficiency but also organizational resilience.

Resilience refers to an organization's capacity to anticipate, absorb, adapt to, and recover from disruptions while maintaining essential functions.

For BLUD institutions, resilience has become increasingly important due to:

- Public health emergencies,
- Fiscal uncertainty,

Vol. 10, No.08; 2026

ISSN: 2456-7760

- Technological disruption,
- Demographic change,
- Workforce shortages,
- Environmental challenges.

The proposed framework suggests that organizational resilience emerges through the interaction of managerial flexibility, governance quality, and leadership effectiveness.

Consequently, resilience should be recognized as a strategic capability rather than merely an operational characteristic.

4.4.Digital Transformation and the Future of BLUD Governance

Digital transformation is rapidly reshaping healthcare systems worldwide.
The implementation of Electronic Medical Records (EMRs), health information systems, telemedicine platforms, artificial intelligence applications, and integrated digital ecosystems is transforming the delivery and management of healthcare services.

Indonesia's healthcare reform agenda, particularly through the SATUSEHAT platform, reflects this broader transformation.
However, digital transformation extends beyond technological adoption.
Successful digital transformation requires:

- Digital leadership,
- Organizational learning,
- Workforce capability development,
- Cybersecurity governance,
- Data governance,
- Strategic change management.

The Integrative Governance Framework proposed in this study provides a useful foundation for understanding how digital transformation can be incorporated into future BLUD governance models.

Digital capability may eventually become one of the most important determinants of sustainable healthcare performance.

4.5.Artificial Intelligence and Emerging Governance Challenges

The growing adoption of Artificial Intelligence (AI) in healthcare introduces new opportunities and governance challenges for BLUD institutions.

AI applications have the potential to support clinical decision-making, resource allocation, patient flow management, predictive analytics, disease surveillance, and organizational planning. These technologies can significantly enhance efficiency and service quality.

Vol. 10, No.08; 2026

ISSN: 2456-7760

However, the increasing use of AI also raises important concerns regarding:

- Data privacy,
- Algorithmic transparency,
- Ethical accountability,
- Cybersecurity,
- Digital inequality.

Consequently, future BLUD governance models must incorporate AI governance principles to ensure that technological innovation remains aligned with public interests, ethical standards, and healthcare equity.

Theoretical Contribution

One of the primary contributions of this study is the development of an integrated theoretical framework capable of explaining BLUD governance beyond the limitations of individual theories.

Most previous studies have examined BLUD institutions from isolated perspectives, resulting in fragmented explanations of organizational performance.

This study contributes to the literature in three significant ways:
First, it integrates five major theoretical traditions into a single governance framework.
Second, it positions organizational capabilities as mediating mechanisms linking governance processes to public value creation.

Third, it conceptualizes public value as the ultimate outcome of BLUD governance, thereby extending existing discussions that focus primarily on efficiency or financial performance.

5. Practical Contributions

Beyond its theoretical contributions, this study provides practical implications for policymakers, healthcare administrators, supervisory boards, and BLUD managers. *First*, the proposed framework promotes a holistic approach to BLUD management by integrating service quality, accountability, organizational capability, innovation, and public value creation. *Second*, it emphasizes that managerial flexibility must be balanced with effective governance mechanisms to ensure accountability and public trust. *Third*, it highlights the strategic role of leadership in fostering innovation, ethical behavior, collaboration, and organizational resilience. *Fourth*, it underscores the importance of developing organizational capabilities through investments in human resources, digital systems, organizational learning, and performance management. *Finally*, the framework supports the development of broader performance indicators that assess not only financial outcomes but also healthcare quality, patient satisfaction, accountability, innovation, resilience, and public value creation.

Vol. 10, No.08; 2026

ISSN: 2456-7760

6. Policy Implications

The findings of this study offer several policy implications for strengthening healthcare governance reform in Indonesia. *First*, government policies should enhance governance capacity by promoting accountability, transparency, stakeholder participation, and performance-based management. *Second*, leadership development programs should strengthen managerial competence, strategic thinking, digital capability, and public service values to support sustainable healthcare reform. *Third*, digital transformation should be institutionalized through investments in integrated health information systems, digital governance, cybersecurity, and data management. *Fourth*, Enterprise Risk Management (ERM) should be incorporated into BLUD governance to improve organizational resilience and preparedness in uncertain environments. *Finally*, policy evaluation frameworks should move beyond financial indicators by incorporating broader measures of public value, including service quality, health outcomes, accessibility, equity, public trust, and community well-being.

7. Future Research Agenda

Although the Integrative Governance Framework proposed in this study offers a comprehensive conceptual explanation of BLUD governance, several opportunities remain for future research.
First, empirical studies are needed to validate the theoretical relationships proposed in this framework. Quantitative approaches such as Structural Equation Modeling (SEM) and Partial Least Squares Structural Equation Modeling (PLS-SEM) may be used to test the causal relationships among managerial flexibility, governance quality, leadership orientation, organizational capabilities, and public value creation.

Second, comparative studies involving hospitals, community health centers, and other public service organizations may provide valuable insights regarding the applicability of the framework across different institutional contexts.

Third, future research may incorporate additional theoretical perspectives, including:

- Institutional Theory;
- Stakeholder Theory;
- Resource-Based View (RBV);
- Dynamic Capability Theory;
- Complexity Theory;
- Network Governance Theory.

These perspectives may enrich the understanding of governance dynamics in increasingly complex healthcare environments.

Fourth, future studies should examine the role of digital transformation and Artificial Intelligence in shaping healthcare governance. Emerging technologies are likely to become critical determinants of organizational performance and public value creation in the coming decades.

Vol. 10, No.08; 2026

ISSN: 2456-7760

Fifth, researchers should investigate the relationship between organizational resilience and sustainable healthcare performance. The growing frequency of crises, pandemics, economic shocks, and environmental disruptions highlights the importance of resilience as a strategic organizational capability.

Finally, future research may explore the development of a Sustainable Public Value Framework that integrates governance, sustainability, resilience, and digital transformation within public healthcare organizations.

8. Conclusion

This study argues that BLUD governance cannot be adequately explained by a single theoretical perspective. By synthesizing New Public Management (Hood, 1991), Good Governance, Agency Theory (Jensen & Meckling, 1976), Stewardship Theory (Donaldson & Davis, 1991), and Public Value Theory (Moore, 1995), it develops an Integrative Governance Framework for Sustainable BLUD Management. The framework highlights that sustainable organizational performance depends on the interaction of managerial flexibility, governance quality, accountability mechanisms, stewardship-oriented leadership, and organizational capabilities.

The study further demonstrates that successful BLUD management should be evaluated not only through financial and operational performance but also through its capacity to create public value, including improved healthcare outcomes, equitable access, public trust, institutional legitimacy, and community well-being. The proposed framework contributes both theoretically and practically by providing a holistic foundation for future research and for strengthening sustainable BLUD governance in increasingly complex healthcare environments.

Final Theoretical Proposition

The sustainable performance of Regional Public Service Agencies (BLUDs) is determined by the interaction among managerial flexibility, governance quality, accountability mechanisms, stewardship-oriented leadership, and organizational capabilities, which collectively generate public value through improved healthcare quality, operational efficiency, fiscal sustainability, institutional legitimacy, and societal well-being.

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Vol. 10, No.08; 2026

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Vol. 10, No.08; 2026

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