

Financial Management Flexibility and Public Service Performance in Indonesian Public Hospitals

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Abstract: Public hospitals are an inseparable part of the provision of health services and improvement of community welfare. With the increasing demand for health services, hospitals are required to manage financial resources efficiently but still maintaining the quality of service and organizational accountability. In Indonesia, the financial management system of the BLU has been introduced to provide greater flexibility in financial management and improve the efficiency of public service delivery. This study investigates the relationship between financial management flexibility and public service performance in Indonesian public hospitals. This study adopts a narrative literature review approach. It reviews academic publications, government regulations, policy documents and literature related to hospital financial management, public sector governance and healthcare service performance. The literature collected was reviewed for the contribution of financial flexibility on operational efficiency, resource utilization, accountability, and service quality in public hospitals. The discussion points to flexible financial management as a way for hospitals to better meet operational needs, improve resource use and improve service delivery. The BLU financial management system allows more autonomy in financial decision making within the requirements of accountability. However, the issues of governance capacity, financial control, organizational management and service quality monitoring continue to influence the effectiveness of implementation. The study concludes that financial management flexibility is important instrument to improve public service performance of Indonesian public hospitals. Enhancing governance practices, accountability mechanisms and managerial capacity is still critical to ensure that financial flexibility leads to sustainable improvement of healthcare services.

Keywords: Flexibility of Financial Management, Public Hospitals, Performance of Public Service.

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Received August 25 2024; Revised September 20, 2024; Accepted October 31, 2024; Published November 7, 2024.

Introduction

One of the most important public services provided by governments is healthcare services. Access to affordable and quality health care services is closely associated to community welfare and national development. Hospitals are required to deliver effective services while at the same time to maintain efficiency, accountability and sustainability in the usage of public resources with the rising public expectations on healthcare. This has made hospital performance improvement a major issue in public sector management and health care governance ([Irwandy et al., 2020](#); [Lakka et al., 2020](#)). Public hospitals are a vital component of national health systems. In addition to medical treatment, public hospitals are also responsible for providing preventive, promotive, curative and rehabilitative health care services. The growing complexity of operations and the increased demand for healthcare services require hospitals to efficiently manage their financial and organizational resources. Financial management has therefore become an indispensable component of the capability of hospitals to provide quality services and meet the evolving needs of healthcare ([Anggraeni et al., 2020](#)). The availability and use of financial resources are closely linked to the effectiveness of health services. Hospitals need sufficient funding to purchase medical equipment, healthcare facilities, workforce development, pharmaceutical supplies, and other operational needs. Financial constraints can affect quality of services, reduce operational efficiency and constrain hospitals' ability to meet community expectations. For this reason, sound financial management is often viewed as an important foundation for better healthcare outcomes and organizational performance ([Dawes, 2010](#)). In many countries, reforms in public sector management have been addressing the need to improve the flexibility of financial management while maintaining accountability and transparency. Traditional bureaucratic financial systems are usually criticized for the rigidity of procedures and the lack of responsiveness to operational needs. Such conditions can reduce organizational efficiency and constrain the ability of public institutions to respond to changing service demands ([Shidarta & van Huis, 2020](#)). Thus, governments have been increasingly looking at alternative approaches that provide more managerial flexibility, without losing public accountability. In Indonesia, efforts to improve the performance of public service organizations have been carried out by implementing the financial management system of the Public Service Agency (BLU). The BLU framework was created to provide enhanced financial management flexibility for public entities providing direct public services, such as hospitals. This mechanism provides hospitals with greater freedom to manage revenue, spending and operational resources but they are also accountable for their performance and use of public money ([Roestamy et al., 2022](#)).

The emergence of financial flexibility points to a wider transformation of public sector governance. Public organizations are increasingly being required to show measurable performance results and improve quality of service rather than meet administrative requirements. Financial flexibility enables hospitals to better manage operational challenges, reallocate resources to organizational priorities and improve service delivery processes. Financial management is thus not considered an administrative function anymore, but rather a strategic component of organizational performance. The introduction of the BLU system has provided hospitals with opportunities to improve operational efficiency and service effectiveness. Greater autonomy in financial decision-making allows hospital management to react more quickly to urgent operational needs and to use existing resources more efficiently. At the same time, financial flexibility may permit investment in health care facilities, medical technology, human resource development and service innovation. Such improvements have the potential to enhance the performance of the public service and increase patient satisfaction. However, there are some difficulties in applying financial management flexibility. More autonomy will mean stronger governance mechanisms to ensure accountability, transparency and effective use of resources. “Public hospitals have to be flexible enough to be efficient but also fiscally responsible and compliant.” Moreover, differences in managerial capacity, institutional readiness and governance practices can affect the effectiveness of financial management implementation among hospitals ([Paluttri, 2021](#)). The link between flexibility in financial management and public service performance is increasingly being studied in the fields of public administration and health care management. Good financial management is frequently linked with better organizational performance, resource allocation, and service quality. But the extent to which financial flexibility contributes to improving the delivery of healthcare services depends on the implementation of governance systems, managerial practices, and accountability mechanisms in healthcare institutions. The implementation of BLU financial management has been widely discussed in the public sector literature, but much of the existing discussion has focused on regulatory frameworks and administrative procedures ([Ayenew et al., 2022](#)). The wider relationship between financial management flexibility and public service performance has received relatively little attention. This relationship is important to understand because financial flexibility is expected to help facilitate the delivery of high-quality health care services, as well as improve administrative efficiency. Based on these considerations, this paper examines the relationship between financial management flexibility and the performance of public services in public hospitals in Indonesia. It covers the use of financial flexibility to improve operational efficiency, resource management, accountability and service quality. It also covers the challenges of implementing flexible financial management systems in public healthcare institutions ([Gunawan et al., 2023](#)).

Research Method

This study uses a qualitative approach with a narrative literature review method to examine the relationship between financial management flexibility and public service performance in Indonesian public hospitals. The choice of method was determined by the fact that the study seeks to provide a conceptual understanding of the contribution of flexible financial management systems to operational effectiveness, accountability and quality of healthcare services and not to test specific hypotheses ([Setiadi & Frederika, 2022](#); [Wijaya et al., 2022](#)). The research uses secondary data in the form of academic journals, books, government regulations, policy documents, official reports, and other relevant publications related to the management of public hospitals, governance of health, financial management and the implementation of the BLU financial management system in Indonesia ([Atichasari et al., 2023](#); [Tarjo et al., 2022](#)). The review of the selected literature revealed the key concepts, issues and perspectives of financial flexibility and its implications for organizational performance. The analysis used is a descriptive-analytical approach. The literature review organized, compared and interpreted relevant information to examine the role of financial management flexibility in supporting resource allocation, operational efficiency, accountability and public service delivery in hospitals. Opportunities and challenges of implementation of flexible financial management practices in public healthcare institutions were under focus. This approach enables the study to present a broader discussion on the role of financial management flexibility as a reform tool in the public sector and its contribution to enhancing public service performance in Indonesian public hospitals ([Bawono & Handika, 2023](#); [Mutamimah et al., 2022](#)).

Result and Discussion

Financial Management in Public Hospitals

Financial management is one of the important aspects of hospital administration. Public hospitals require adequate financial resources to offer medical services, maintain infrastructure, develop human resources, procure medicines and carry out other operational activities. The effectiveness of financial management in hospitals is directly proportional to their capacity to deliver accessible, efficient and high-quality health care services. Management of finances in public health care institutions includes not only budgeting and controlling of expenditures. It also includes planning, resource allocation, performance monitoring and accountability mechanisms that ensure proper use of available resources. As the complexity of health services increases, the expectation of hospitals to use financial resources is to maintain operations and improve service quality.

With the rising need for healthcare services, sound financial management becomes a growing imperative. Hospitals are under constant pressure to balance financial constraints with quality patient care. As a result, financial management has become a strategic tool to enhance organizational performance and delivery of public services.

Financial Flexibility of the BLU System

One of the major reforms in Indonesia's public sector is the implementation of the financial management system of the BLU. The system was designed to promote accountability and transparency and to allow greater flexibility in the management of financial resources. This mechanism grants public hospitals greater autonomy in the use of revenues and in the management of operational expenses, according to organizational needs. This financial flexibility enables hospitals to respond more quickly to changes in operational needs. Unlike the traditional bureaucratic financial systems that are usually characterised by complex administrative procedures, the BLU framework allows the management to make more effective decisions on the resource allocation and service provision. Such flexibility might make hospitals more responsive to healthcare needs and operational challenges. The BLU system also promotes the adoption of more performance-based management practices to hospitals. Financial decisions are expected to support organizations in fulfilling their objectives and improving service outcomes. Therefore, financial flexibility is not only an administrative device but also a strategic tool that can be used to improve organizational efficiency.

Fiscal Governance and Accountability

Financial flexibility has operational benefits but needs to be supported by strong governance and accountability mechanisms. The necessity for greater autonomy necessitates good management to ensure the use of financial resources is efficient and effective to support the objectives of an organization. But without the appropriate governance arrangements, greater financial flexibility can create a risk of inefficiency, misallocation of resources and reduced accountability. Financial governance means transparency in financial reporting, compliance with laws and regulations, internal control mechanisms and performance measurement. These mechanisms help to build public trust and hold hospitals accountable in the use of public resources. Good governance practices also help to make better decisions and to sustain organizations. Public hospital accountability is more than just financial reporting. Hospitals must show that financial resources are transformed into better healthcare services and better

patient outcomes. Thus, governance and accountability remain key ingredients for successful reform of financial management.

Public Service Performance and Financial Management

The main goal of financial management flexibility is the performance improvement of public services. Good financial management helps hospitals allocate resources better, support operational processes better and serve their customers better. We can reduce the time it takes to deliver services, improve facilities, increase healthcare capacity and patient satisfaction by making better use of resources. Financial flexibility also helps hospitals better address emerging health care needs. This allows the distribution of resources based on organizational priorities that might improve operational efficiency and support continuous service improvement. Additionally, hospitals may have more opportunities to invest in medical technology, workforce development, and service innovation. Financial management and service performance The link between financial management and service performance points to the importance of viewing financial resources as strategic assets rather than administrative needs.

Challenges and Future Perspectives

The managed, financial flexibility can help achieve broader health objectives and improve the overall performance of public hospitals. However, some institutions may find it difficult to reconcile financial autonomy with the expectation of accountability. Another challenge is to maintain service quality and financial sustainability. Hospitals are constantly forced to allocate scarce resources to meet rising healthcare demands. The increasing complexity of healthcare services necessitates effective planning, monitoring and evaluation (PME) mechanisms to facilitate organizational performance in the long-term. Going forward, it will be important to continue strengthening managerial capacity, governance practices and accountability systems. Better linkage of financial flexibility with financial planning, performance measurement and service evaluation can lead to maximising benefits. Continuous improvement and institutional learning can improve organizational efficiency and public service performance of public hospitals. In summary, financial management flexibility is a key element in public sector reform in health care. Financial autonomy is important for the success of its implementation not only but also the ability of hospitals to use resources effectively, maintain accountability and provide high-quality healthcare services to the public.

Conclusions

Public hospitals are essential to deliver healthcare services to the community. Thus, hospitals are expected to provide quality and affordable services, but they are also expected to build organizational capacity, maintain financial sustainability and improve their competitiveness in an increasingly dynamic environment of healthcare. The implementation of the BLU financial management system is one of the main efforts to improve the hospital's performance through greater flexibility in financial management. The BLU framework promotes professionalism, transparency, accountability and good governance and supports the improvement of the performance of public service. Financial flexibility allows hospitals to respond more effectively to operational needs and changing service demands, resulting in more efficient use of resources and enhanced service delivery. At the same time the adoption of flexible financial management requires strong governance mechanisms and effective systems of accountability. Public hospitals are required to exercise financial prudence and adhere to applicable regulations. Implementation of the BLU system might also raise administrative burdens especially in financial reporting and accounting practices. Flexibility in financial management does not necessarily mean an extra burden to hospitals in general. If used correctly, it can help make operational processes smoother and improve operational performance, financial performance and quality of healthcare services. Therefore, the flexibility of financial management is still an important instrument to improve the performance of public services in Indonesian public hospitals.

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