



## ARTICLE

# Simplifying the Bureaucracy Through Transaction Cost Theory

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**Abstract:** The policy of simplifying the bureaucracy aims to simplify, but in its preparation, it produces many regulations that also cost a lot of money. The Ministry of Finance publishes an average cost incurred for the preparation of one ministerial regulation of up to Rp232 million, not including other costs that do not look like the formulation time. This study analyzes transaction costs in bureaucratic simplification and identifies government efforts to improve transaction cost efficiency. This study uses mixed methods and explanatory sequential analysis to analyze the efforts made by the Government. This study, conducted in 2021-2022, combines qualitative and quantitative methods. The qualitative method of data collection uses in-depth interviews and focus group discussions. While the quantitative method uses a questionnaire. The study results show that the Government has made various efforts to improve the efficiency of transaction costs. Still, various policies that have been prepared to overcome bureaucratic inefficiencies through bureaucratic simplification tend to increase formalization and increase costs. These various government efforts cannot be solely assessed using an economic perspective. Based on a study conducted by the University of Chicago, government bureaucracy will never be truly mathematically efficient because of the way it works, unlike the private sector. The impact of bureaucratic simplification is a long-term benefit, considering that this has an effect on governance that has not been calculated. Inefficiency or large costs incurred by the Government today will be an investment in improving governance in the future.

**Keywords:** Transaction Cost Theory; Bureaucratic Simplification; Administrative Reform; Efficiency.

## 1. Introduction

A fundamental requirement for national development is good governance. A nation's growth accelerates with improved governance (Khairi, 2020) as the public gains confidence in a government that upholds moral principles, is free from collusion, corruption, and nepotism, and offers high-quality services to the populace (Khairi, 2020; Sacchetti & Borzaga, 2021). Classic bureaucracy is characterized by a long hierarchy, rigid bureaucracy, and rule-driven, like Weberian (Jackson, 1986), has been adopted in Indonesia since independence. In 2000, Indonesia began to re-arrange the public sector organization through a bureaucracy reform policy for improving public service quality and accommodating public interest at the same time (Widowati et al., 2023). Bureaucracy reform policy was formalized in 2010 with President Regulation Number 81 Year 2010 about Grand Design of Bureaucracy Reform. This regulation is divided into eight reform areas which consist of several indicators, and governance issues are the most common reform area that has empirical problems in local and central governance (Sipayung et al., 2022).

One of the governance issues of concern is related to institutions. According to Sipayung et al. (2022) imprecise institutional arrangements are the root cause of ineffective governance, ambiguous working relationships, difficult job implementation supervision, and incorrect use of public funds. According to numerous experts, bureaucratic simplification is the process of controlling bureaucracy (Khairi, 2020) through organizational simplicity, position equality, and work system adjustments to establish a more effective and efficient government system (Saksono et al., 2024).

Experts in public administration employ a variety of terminology when discussing bureaucratic reduction. Saksono et al. (2024) termed it bureaucratic downsizing, bureaucratic trimming, termed by Situmorang (2019), and reduction of bureaucratic structure (Rohman & Rismana, 2021). Nonetheless, the objectives of these phrases are the same: they are to speed up decision-making, increase efficiency, and speed up public service (Khairi, 2022).

Numerous experts have studied bureaucratic simplification from a variety of perspectives. According to De Coninck et al. (2023), there are three main approaches to assessing public sector institutions: the transaction cost theory (TCT), the resource-based theory, and the institutional theory. Monteiro and Assunção (2012) mentioned that the flexibility of MSMEs was unaffected by bureaucratic reduction. Martini et al. (2019) and De Coninck et al. (2023) employed the institutional theory approach to demonstrate how bureaucratic employed the institutional theory approach to demonstrate how bureaucratic cuts were implemented by determining the structure's roles. Additionally, it is advised to remove or combine structures with limited functions with other structures of a similar nature. Furthermore, Khairi (2022) used resource-based theory to implement bureaucratic cuts that led to suggestions to dissolve the Prosecutor's Commission and the Police Commission.

The use of transaction cost theory is found in most research in business organizations (Ran et al., 2024; Vieira, 2020; Zaibet et al., 2005). However, there has been research that uses TCT in public organizations, such as that conducted by Nzobonimpa (2023) who saw the impact of TCT on the amount of efficiency generated by government organizations in the state budget structure. Ran et al. (2024) sees TCT in government organizations in the context of centralizing all services (integrated services) which results in state budget savings (Berrios & McKinney, 2017). In this article, CTC is used to see the simplification of bureaucracy, both local government organizations and central government organizations, to carry out delayering without directly examining its impact on budget savings.

TCT is a theory derived from economics that views transactions as a unit of measurement in the context of using resources, efforts, and costs for a program to maximize performance and minimize costs (Rindfleisch, 2020; Williamson, 1979). This paper examines Indonesia's bureaucracy reduction initiatives using economic methodologies. As a result, studies on bureaucratic reduction from an economic standpoint—particularly when employing transaction cost theory—remain uncommon. In addition to identifying government initiatives to improve transaction cost efficiency, the purpose of this study is to identify transaction cost components resulting from bureaucratic simplicity.

## 2. Methods

Since the Post-Positivism paradigm is employed in this study, various data collection techniques are used. In-depth interviews, questionnaire distribution, and focus group discussions (FGD) are used in qualitative data collection. Participants and informants using the qualitative technique include central government ministries/institutions and provincial government stakeholders. This study was conducted in 2021-2022 and analyzed in 2023 because there are limitations related to time and data collection procedures.

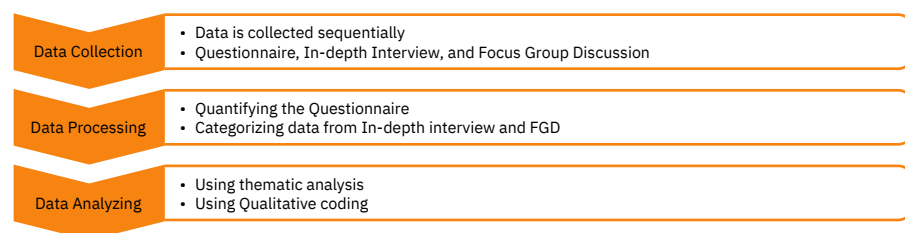
**Table 1.** Informants and Participants

No.	Informants	Affiliation	Status
1	Deputy Assistant of Institutional for Internal Affairs, Politic, Laws, and Local Governance	Ministry of Administrative and Bureaucracy Reform	Key Informant
2	Director of Local Government Institution	Ministry of Home Affairs	Key Informant
3	Head of Organization Bureau	Ministry of Home Affairs	Key Informant
4	Head of Organization Bureau	Each Ministries	Key Informant
5	Head of Organization Bureau	Each Province	Participants
6	Head of Organization Unit	Each Regency	Participants
7	Academicsians	Institut Pemerintahan Dalam Negeri	Participants

Source: Processed by Authors

Table 1 shows that the participants in assessing the organization structure refer to the focus group discussion process. In contrast, the key informants refer to the in-depth interview process. In secondary documents, this study collects data from each department/institution; those are 1) local government structure (both province and regency), organization structure in each ministry, and dataset of all echelon positions of local government structure in the Ministry of Home Affairs, and Ministry of Administrative and Bureaucracy Reform.

The questionnaire responses are quantified into percentages as part of the data processing and analysis. This is followed by a descriptive analysis of the challenges and barriers encountered, the efforts made, and the solutions to the issues identified by the FGD results. Figure 1 shows the specifics of the procedure.



**Figure 1.** Research Procedures

### 3. Results and Discussion

#### 3.1. Simplifying the Bureaucracy and the Governance Efficiency

In order to execute state policies, a bridge between the state and society was required, which led to the creation of bureaucracy (Shaw, 1992). This indicates that the people and the state both require bureaucracy. However, Suhardiman cites Karl Marx, who holds a contrary view, arguing that when bureaucracy is viewed negatively, it is seen as a bloated organization, full of pathology (disease), wasteful, unproductive, inefficient, and even corrupt (Suhardiman et al., 2023).

Generally speaking, bureaucracy can be understood as a system of government operations designed to accomplish state objectives in an effective and efficient manner (Ventriss & Hummel, 1995). On the plus side, bureaucracy is seen as an orderly, law-abiding system that functions well (Khairi, 2020). Making bureaucracy more dynamic and achieving the acceleration of the work system are the two primary goals of simplifying bureaucracy (Saksono et al., 2024; Sipayung et al., 2022). Furthermore, prioritize functional work to enhance performance effectiveness and efficiency to the highest possible level and to actualize ASN professionalism (Sipayung et al., 2022; Situmorang, 2019).

One of the President and Vice President's five work goals is the implementation of the two-tiered bureaucracy simplification and the structural position conversion to a functional position. Planning and preparation are essential for the bureaucracy's reduction to two tiers. Eleven percent of Indonesia's 4,286,918 civil personnel hold structural roles, according to data from the Ministry of PANRB (Ministry of State Apparatus Utilization and Bureaucratic Reform, 2020). The bureaucratic structure needs to be simplified to create a more dynamic and professional bureaucratic apparatus. Along with improving efficacy and efficiency in assisting central and regional agencies in providing the public with government services. Transferable structural authorities must meet specific criteria, including having responsibilities and functions associated with functional technical services and being based on a particular area of knowledge.

Additionally, streamlining bureaucracy is implemented to achieve government accountability in light of the persistent signs of a corrupt bureaucratic culture that abuses and exploits the office. It is envisaged that bureaucratic performance will be more effective and efficient with a streamlined framework. Considering that a large bureaucratic system costs a lot of money. Building a dynamic bureaucracy with high flexibility, capacity, superior culture, and performance-based organization is the ultimate goal of bureaucratic simplification. This will enable the bureaucracy to create adaptable policies that are incorporated into each unit (Ministry of State Apparatus Utilization and Bureaucratic Reform, 2020).

Bureaucratic organizations are characterized by negative stereotypes used to serve the community (Wicaksono & Ismail, 2013). One example of this is handling difficult, unwelcoming, unfair, opaque letters or other paperwork that prolongs and complicates services. In his speech, President Joko Widodo stated that ministries, organizations, and local governments presently own 27,000 applications. Tens of thousands of programs operate separately, making it difficult for them to combine, complicate services, and prevent them from being in sync with one another (Nugraheny & Ihsanuddin, 2024). Simplifying bureaucracy to improve government efficiency and effectiveness is one of the major concerns of our day. It has emerged as one of the five primary agenda items for national development. This attempts to make the bureaucracy more dynamic and professional while expediting decision-making. Additionally, the government has

implemented several policy initiatives, such as streamlining business procedures across government service sectors, through three methodical steps of bureaucratic simplification.

Organizational restructuring and the equalization of administrative jobs are two effects of the bureaucratic streamlining technique (Rakhmawanto, 2021). Government spending will rise in proportion to the size and duration of the bureaucracy (Narutomo, 2012). The Ministry of PANRB is streamlining government agency organizational structures in the following ways to improve efficiency:

**Table 2.** Organizational Structure Simplification in Ministries by 2023

No.	Institutions	Percentage of Streamlining Bureaucracy (echelon III, echelon IV, and echelon V)
1	Coordinating Ministry for Human Development and Cultural Affairs	96%
2	Coordinating Ministry for Maritime and Investment Affairs	95%
3	Coordinating Ministry for Political, Legal, and Security Affairs	50%
4	Ministry of Law and Human Rights	86%
5	Ministry of Home Affairs	82%
6	Ministry of Education, Culture, Research, and Technology	95%
7	Ministry of Public Works and Public Housing	84%
8	Ministry of Administrative and Bureaucratic Reform	98%
9	Ministry of State-Owned Enterprises	97%
10	Ministry of Ministry of Tourism and Creative Economy	92%
11	Ministry of Villages, Development of Disadvantaged Regions, and Transmigration	91%
12	Ministry of Women Empowerment and Child Protection	98%
13	Ministry of National Development Planning/National Development Planning Agency	97%
14	Ministry of State Secretariat	74%
15	Ministry of Manpower	88%
16	Ministry of Agrarian Affairs and Spatial Planning/National Land Agency	98%
17	Ministry of Health	100%
18	Ministry of Trade	89%
19	Ministry of Maritime and Fisheries Affairs	79%
20	Ministry of Finance	25%
21	Ministry of Industry	84%
22	Ministry of Communications and Informatics	99%
23	Ministry of Energy and Mineral Resources	90%
24	Ministry of Agriculture	92%
25	Ministry of Foreign Affairs	37%
26	Ministry of Transportation	71%
27	Ministry of Cooperatives and SMEs	70%
28	Ministry of Environment and Forestry	76%
29	Coordinating Ministry for Economic Affairs	89%
30	Ministry of Social Affairs	83%
31	Ministry of Religious Affairs	95%
32	Ministry of Youth and Sports Affairs	99%

Source: Processed by Authors

Table 2 shows that the percentage of central ministries that have been streamlined explains that from 100% of governments' structure that can be streamlined, the Ministry of Health fully succeeded in streamlining its structure. Only 37% of the structure has been streamlined in the Ministry of Foreign Affairs. In addition to the ministerial level, 90% of the administrative position structure in 32 provincial governments has been simplified through bureaucratic simplification at the regional government level. The specifics of this process are as follows:

**Table 3.** Organizational Structure Simplification in Provincial Governments in 2021

No.	Provinces	Percentage of Streamlining Bureaucracy
		Model Recommendations
1	Riau islands	83.08%
2	Riau	97%
3	Banten	100%
4	West Java	76%
5	DKI Jakarta	-
6	Central Java	54%
7	DI Yogyakarta	58%
8	East Java	100%
9	East Nusa Tenggara	100%
10	Central Kalimantan	92%
11	North Kalimantan	99%
12	West Sulawesi	100%
13	Southeast Sulawesi	100%
14	South Sulawesi	90%
15	West Papua	97%
16	Maluku	96%
17	North Maluku	95%
18	West Nusa Tenggara	98%
19	Bali	76%
20	North Sulawesi	98%
21	Central Sulawesi	86%
22	West Sumatra	56%
23	Jambi	100%
24	Bengkulu	99%
25	Bangka Belitung Islands	100%
26	North Sumatra	40%
27	Lampung	99%
28	Gorontalo	100%
29	West Kalimantan	100%
30	East Kalimantan	98%
31	South Kalimantan	91%
32	Aceh	97%

Source: Processed by Authors

Table 3 shows that several provinces have successfully streamlined their bureaucracy to 100% in local government. Meanwhile, North Sumatra only realizes that 40% of its structure has been streamlined. Additionally, based on information from the Ministry of Home Affairs and the Minister of Home Affairs' letter to the Vice President of the Republic of Indonesia dated March 17, 2022 (Minister of Home Affairs Number 061/1968/SJ), 499 (four hundred and ninety-nine) Regency/City Regional Governments have 114,954 (one hundred and fourteen thousand nine hundred and fifty-four) simplified administrative positions as a result of structural simplification efforts.

The simplification of the organizational structure in the context of regional government is implemented based on the following principles: a) the organizational structure layer is simplified into two levels without altering the typology of the regional apparatus, and b) the executors of functions are moved to functional positions rather than out of government roles as a result of the structure's simplification (Porter & Siegel, 1965).

Based on the aforementioned information, the Ministry of PANRB and the Ministry of Home Affairs simplified bureaucracy in ministerial agencies as well as in Provincial, Regency, and City Governments in order to achieve an efficient and productive bureaucracy. Simplifying bureaucracy is crucial because it represents the strategy for accomplishing organizational goals in the organizational structure. The efficiency and speed of operations can be impacted by the size of the bureaucracy (Daryono et al., 2023). However, the transition to a data-driven, straightforward bureaucracy also affects how various policies are formulated. These policies are difficult to formulate and may cost a lot of money (Sacchetti & Borzaga, 2021). Effectiveness and efficiency are needed in the policies in order to serve as a gauge for the degree of output success and the objectives that need to be met.

### 3.2. Transaction Cost Factors Affecting the Bureaucracy Simplification

The budget is a management planning tool in bureaucracy to accomplish organizational goals and control the government's operating expenses and financial situation (Valentinov, 2007). In order to prevent policies that are not straightforward and costly, budget control measures are taken to guarantee state revenues, state spending, and state distribution (Dewata et al., 2021). The budget for state spending can be explained as follows:

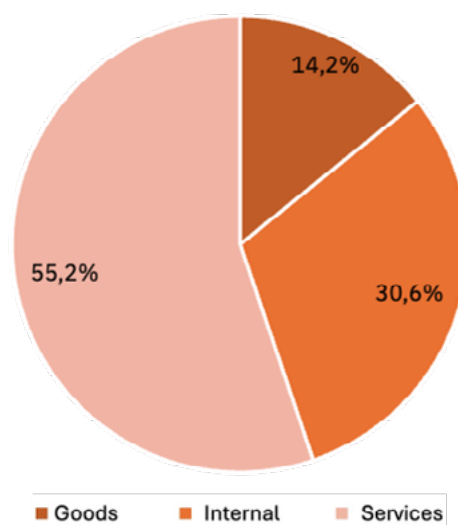


Figure 2. Business Intelligent, General Director of Budget, Ministry of Finance

Source: Processed by Authors

According to [Figure 2](#), a product of the government's bureaucracy management is produced. Internal services, together with goods and services, make up the majority of government products. With a proportion of 55.2%, services constitute the largest category of products. The percentage of internal services and goods products is 14.1% and 30.6%, respectively ([Kurba, 2021](#)). Laws and regulations, or regulations and laws, are creations of the government. Among the nations with the most rules worldwide is Indonesia. Based on [regulation.go.id](#), the available data indicates that Indonesia has 58,283 total regulations.

This kind of funding is referred to as regulatory costs by the Ministry of Finance's Directorate General of Budget (Direktorat Jenderal Anggaran, n.d.). Regulations are government products and creating them costs money. According to the Directorate General of Budget (n.d.), the Ministry of Finance released an average cost of up to IDR232 million to develop a single ministerial regulation. While there are still many expenses that need to be covered but cannot be evaluated in monetary terms, such as psychological difficulties, time, energy, and so on, these costs are still "visible and measurable" ([Valentinov, 2007](#)).

This relates to [Torsteinsen's \(2012\)](#) observation that formalization and regulations intensify and multiply when the government seeks to streamline the bureaucracy. The regulations' issuance came with several expenses, including those related to meetings, focus groups, study visits, and inviting speakers from different sectors, all of which contributed to the requirement for high costs. In agreement with Torsteinsen's viewpoint, [Adriana \(2022\)](#) declared that to provide effective and efficient public services, state/government administrators must be committed to exercising their authority in a democratic state or government. The people are burdened more due to the elitist nature of democratic rule.

There is a reduction in bureaucracy at the level of the central government. Still, there is an increase in bureaucracy at the level of autonomous regions, primarily to accommodate the transfer of illogical bureaucratic burdens (people and institutions) ([Monteiro & Assunção, 2012](#)). This is done to decrease or rationalize the administrative load nationally and even put further strain on state budgets. This situation severely strains the state's finances, and bureaucracy naturally plays the defensive game when faced with changes that could jeopardize its continued existence.

Transaction cost elements that may have an impact on the process of streamlining government bureaucracy include:

a. Complex Coordination

The process of bureaucratic simplification involves multiple government entities, ranging from regulatory agencies to technical agencies, fostering agencies, and user agencies ([Herold et al., 2022](#)). Because of their interdependence, these different government agencies necessitate close collaboration. Ineffective coordination between the federal government and local governments can lead to higher transaction costs because it necessitates more work in the areas of monitoring, negotiation, communication, and interest alignment.

b. Uncertainty

The policy and regulatory changes in the environment are significantly impacted by uncertainty in government operations, including economic, social, and political dynamics. This increases the transaction costs of modifying strategy, planning, and execution. In keeping with Matondang's opinion, which claims that many government initiatives and policies don't provide the desired outcomes, wasting money without having a big impact on the community ([Matondang et al., 2024](#)). For instance,



the bureaucratic machine may not function at its peak efficiency because of the bureaucratic simplicity policy, which frequently reallocates and refocuses the budget due to the COVID-19 pandemic and other factors. In order to prevent the state budget's absorption from producing the best possible results.

c. Digital Literacy in Society is Still Low

Good digital literacy in the context of government can be understood as comprehending the sectoral approach to digitalization by developing applications and improving business processes combined with suitable digital technology solutions (Wargadinata et al., 2022). Digital literacy is not limited to the ability to use digital devices. Due to the growth of 27,000 common applications that may overlap, there is currently a risk of significant state losses.

The above factors can affect transaction costs in simplifying government bureaucracy. Understanding these factors can help design more effective and efficient simplification strategies as Transaction Cost Economics (TCE) Theory takes a comparative contractual approach to economic organizations where contract variations are expected to reflect savings and efficiency goals (Innayah & Nasikin, 2022).

These different policy steps can be considered inefficient according to transaction costs. This is because more and more regulations are being created to achieve the political goal of streamlining bureaucracy. For instance, the bureaucratic simplification strategy is now being implemented by about 5 (five) primary policies and 5 (five) supplemental policies. The following are these policies:

a. Main Policies

- Regulation of the Minister of PANRB Number 17 of 2021 concerning the Equivalence of Administrative Positions into Functional Positions;
- Regulation of the Minister of PANRB Number 25 of 2021 concerning the Simplification of Organizational Structures in Government Agencies for Bureaucratic Simplification;
- Regulation of the Minister of PANRB Number 6 of 2021 concerning ASN Performance Management;
- Regulation of the Minister of PANRB Number 7 of 2022 concerning Work Systems in Government Agencies for Bureaucratic Simplification;
- Regulation of the Minister of PANRB Number 1 of 2023 concerning Functional Positions.

b. Supplementary Policies

- Presidential Regulation Number 95 of 2018 concerning Electronic-Based Government Systems;
- Presidential Regulation Number 13 of 2022 concerning SPBE Architecture;
- Presidential Regulation No. 50 of 2022 concerning Income of Administrative Officials Affected by Organizational Restructuring;
- Regulation of the Minister of Finance Number 135/pmk.05/2022 of 2022 concerning Procedures for Granting and Termination of Payment of Income of Administrative Officials Affected by Bureaucratic Restructuring for Civil Servants in Central Agencies Charged to the State Revenue and Expenditure Budget;
- Regulation of the Minister of Home Affairs No. 14 of 2023 concerning Technical Guidelines for Granting and Termination of Payment of Income of Administrative Officials Affected by Bureaucratic Restructuring for Civil Servants in Regional Agencies Sourced from the Regional Revenue and Expenditure Budget. The addition of a set of legal bases followed by the implementation of socialization, system changes, training, and policy alignment will, of course, also increase costs,

both those that can be calculated and those that cannot be calculated. (opportunity cost).

However, studies from the University of Chicago demonstrate that bureaucracy in government is never genuinely efficient in terms of the economy (CBR - Economics, 2005). This is because the bureaucracy allocates public commodities— goods and services—to customers, or in this case, the community, that the populace cannot determine for themselves. According to the article, criticizing bureaucracy as inefficient implies that bureaucrats' methods of operation differ from those of the private sector. Measuring performance appraisals in the public sector is never easy. It is uncommon for bureaucrats to receive performance bonuses and not be compensated only for their output (Fritzen, 2007; Santoso, 2016). For instance, policy analysts who construct a comprehensive and astute policy narrative may not always receive compensation, just as police officers who make arrests are not. Sacchetti and Borzaga's (2021) theory of organizational failure divides the fundamental assumptions of this perspective into two key aspects: (1) human variables, which include restricted rationality; and (2) opportunistic or self-interest. According to March and Simon (1958), bounded rationality describes how cognitive elements like time constraints and restricted knowledge greatly impact humans' decision-making. Humans typically have to make judgments fast and have little opportunity to weigh their options when pressed for time. Therefore, cognitive biases that solely rely on subjective opinions and preferences rather than objective facts are frequently used by humans. This situation leads to the disregarding of crucial and in-depth information and may result in exorbitant operational expenses. Additionally, the term "opportunistic character" describes how people operate in ways that serve their interests, which can lead to dishonest behavior and a decrease in organizational effectiveness (Chandler, 2010; Garcia-Sanchez et al., 2011).

### 3.3. Government Effort in Increasing the Transaction Cost Efficiency

The government is working to reduce business processes and increase the usage of integrated digitally based government application services in order to meet public aspirations for an efficient and effective bureaucracy. Information and communication technology is one tool that can be used to accomplish good governance, among other things (Wargadinata et al., 2022). If the government can demonstrate that it is practicing good governance by implementing policies and doing actions that are technologically adaptive, then it is effectively providing public services (Larsson, 2021). In order to address a problem or offer new automatic alternatives for managing government, providing optimal public services also requires innovation that can increase quality and be characterized as a new strategy or a combination of the old and the new (Warman et al., 2022). Besides that, innovation with using technology can reduce the public service mechanism and accelerate service effectiveness (Sudrajat & Andhika, 2021).

As an illustration, the business procedure for personnel services has been streamlined. The most recent plan reduces staff services from both the perspective of the service business process and the perspective of the system infrastructure that is being used. As the structure streamlining results, the government succeeds in reducing government spending, especially in regulation cost spending, to 30% (Kurba, 2021). Regulation cost is government spending because of its role as regulator and public service delivery.

In addition, it is the goal of all personnel services to be conducted via the ASN Information System in order to assist the government's goal of realizing the Electronic-

Based Government System (SPBE) and one Indonesian data (Yigitbasioglu, 2010). The pension service business procedure was reduced from five phases, which civil servants had to pass, to only two as part of the personnel service's cutbacks. There are now only two phases left in promotion services, down from their initial eight to fourteen levels. Transfer services, which were formerly divided into 11 steps, are now only available in two stages (De Coninck et al., 2023). These services include NIP repair and determination, which are performed in two stages or within two working days (Ministry of State Apparatus Utilization and Bureaucratic Reform, 2022).

In an attempt to help ASN manage its people concerns, the personnel service business process has been streamlined (Putra & Iskandar, 2013). In addition, the Electronic-Based Government System (SPBE) is being used more frequently as a type of government governance system that applies information technology in an integrated and comprehensive manner for the execution of public service delivery and government administration.

The government is taking this seriously by putting the SPBE architectural framework into practice, which is based on Presidential Decree Number 132 of 2022. The benefits of this implementation will help realize the integration of government digital services through a national portal in the future for both integrated government administration services and public services (Pawlowski & Scholta, 2023). In addition to the shift from manual to digital services, it is crucial to change mindsets and paradigms in order to establish an integrative bureaucracy that places a high value on cooperative innovation (Sudrajat & Andhika, 2021). Changes and adjustments in culture, technology, strategy, organisation, customers, and people are all connected to this paradigm shift (Li et al., 2019).

#### 4. Conclusion

The government has attempted to improve transaction cost efficiency in several ways, but the initiatives intended to reduce bureaucratic inefficiencies by streamlining bureaucracy often formalize processes and drive-up prices. Evaluating these government initiatives exclusively from an economic standpoint is not appropriate. Reducing government agency service business procedures and increasing the usage of integrated digitally based government services are two examples of how the government can continue to encourage efficiency in its efforts to realize an effective and efficient bureaucracy. The long-term effects of bureaucracy simplification are felt because they impact governance, which has not yet been measured. Government inefficiencies or excessive expenditure now incurred will be invested in future improvements to governance. This study succeeded in showing the impact of organizational simplification in public sector organizations using transaction-cost theory and showing the before and after conditions of organization simplification. This study has limitations in assessing the impact of organization simplification on cross-institution function, quasi-military organizations that require high coordination (in field office), and bureaucrats' psychology. So, this study recommended researching these points of view.

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