



Procurement Policy in Regional-Owned Enterprises: A Pathway to Good Corporate Governance

Aji Setya Budi¹, Retno Mawarini Sukmariningsih², Mochamad Riyanto³, Afif Noor^{4*}

¹Doctoral of Law Program, Universitas 17 Agustus 1945, Semarang, Indonesia.

^{2,3}Faculty of Law, Universitas 17 Agustus 1945, Semarang, Indonesia.

⁴Faculty of Sharia and Law, Universitas Islam Negeri Walisongo Semarang, Indonesia; afif_noor@walisongo.ac.id (A.N.)

Abstract. Goods and services procurement policies in Regional-Owned Enterprises (ROEs) are of utmost importance in supporting good corporate governance (GCG). This study critically analyzes the implementation of these policies in ROEs and their impact on GCG. The research method used is a qualitative approach, with data collected from a comprehensive analysis of related documents such as laws, regulations, and literature. The results highlight that while ROEs have embraced the principles of transparency and accountability, the main challenges lie in more effective supervision and risk management. Moreover, reliance on complex procedures and lack of human resources training are slowing down the optimal implementation of GCG. The recommendations from this study, which include increasing transparency, strengthening internal control systems, and continuous training for human resources, are urgent actions needed to ensure a more effective GCG implementation in the procurement of goods and services in ROEs.

Keywords: Procurement Policy, Goods and Services, Regional-Owned Enterprises, Good Corporate Governance.

1. INTRODUCTION

Procurement of goods and services has a strategic role in managing Regional Owned Enterprises (ROEs) (Tamher, 2021). As an entity formed to contribute to regional development while increasing local revenue, ROE is expected to be able to manage its resources effectively, efficiently, transparently, and accountably (Hermanto et al., 2021). In this context, the implementation of goods and services procurement policies based on good corporate governance (GCG) principles is not just critical, but necessary (Dewata et al., 2022). However, procurement practices in ROEs are often characterized by various problems, such as lack of transparency, low efficiency, and indications of corrupt practices. It is detrimental to regional finances and reduces public trust in ROEs management.

The existence of ROEs is normatively stated in Government Regulation Number 54 of 2017 concerning Regional-Owned Enterprises, which states that the establishment of Regional-Owned Enterprises aims to provide benefits for the development of the regional economy, carry out public benefits in the form of providing quality goods and/or services for the fulfillment of people's lives according to the conditions, characteristics, and potential of the Region concerned based on good corporate governance, and obtain profit and/or profit. ROE, with its commitment to good corporate governance, is a reliable provider of quality goods and services, thereby fulfilling its role in public service. ROEs can be a driver of the overall economic down effect; it will directly increase the receipt of Regional Original Revenue and become one of the drivers of the regional economy. ROEs drive productive economic sectors, absorbs direct and indirect labor, and stimulates small and medium-scale businesses (Wibowo, 2020).

This research analyzes how the procurement policy of goods and services, such as infrastructure projects, healthcare services, and educational materials, in ROEs can be an instrument to realize GCG principles. By identifying the obstacles to implementing the policy and providing relevant recommendations, this research empowers policymakers, researchers, and stakeholders in regional governance and procurement to play a crucial role in implementing procurement policies based on GCG. This implementation is expected to increase transparency, accountability, and professionalism in the procurement process at ROEs, thereby improving the quality of goods and services procurement.

The urgency of this research is underscored by the various laws and regulations in Indonesia that regulate the procurement of goods and services and the governance of Regional-Owned Enterprises. Law No. 23/2014 on Regional Government, for example, emphasizes the importance of professionalism and accountability in managing Regional-Owned Enterprises. In addition, Presidential Regulation No. 16 of 2018, amended by Presidential Regulation No. 12 of 2021 on Government Procurement of Goods/Services, regulates the principles of procurement that must be carried out transparent, efficient, and competitively. On the other hand, Law Number 19 of 2003 concerning State-Owned Enterprises is also an important reference to encourage Regional-Owned Enterprises to implement GCG principles. This research is crucial in understanding and navigating these complex regulations.

Thus, this research is not only theoretically relevant but also of practical urgency. It is crucial to strengthen the governance of goods and services procurement in ROEs. The findings of this study are expected to contribute to improving ROEs performance while supporting the achievement of good corporate governance at the regional level. This will enable ROEs management to become a more transparent, efficient, and accountable entity in carrying out its functions and making optimal contributions to regional

development.

2. RESEARCH METHOD

This research adopts a qualitative approach to thoroughly understand the procurement policy of goods and services in Regional-Owned Enterprises and its role in promoting good corporate governance (GCG). The qualitative approach was chosen for its focus on collecting descriptive data through document analysis. The data collection techniques are meticulously carried out, involving comprehensive document studies using primary and secondary legal materials (Noor, 2023). The data obtained is then rigorously analyzed qualitatively, leading to conclusions that are firmly rooted in the focus of the study, which is the procurement policy of goods and services at regionally owned enterprises.

3. DISCUSSION

3.1. The Urgency of Policy and the Application of GCG Principles in the Procurement of Goods and Services in Regional-Owned Enterprises

Goods and services procurement policies in Regional-Owned Enterprises (ROEs) are crucial aspects that determine the success of public resource management (Maimunah et al., 2022). ROEs are key players in this management role, as they play a dual role as public service providers and regional economic drivers (Umanto et al., 2016). To fulfill these two functions, procuring goods and services must be carried out optimally, based on transparency, efficiency, and accountability principles. The goods and services procurement policy is carried out to achieve output by fulfilling the need for quality goods and services at the best price.

Procurement is an unavoidable activity, prevalent in both the private sector through private business entities and in the public sector by the government (Schapper et al., 2006). The procurement process fundamentally aims to meet the needs of goods and services essential for the smooth running of activities carried out by private and government entities. These needs are typically met through external suppliers or providers who act as partners in providing the goods and services needed. Laffont and Tirole define procurement as “the complex process of finding and agreeing to terms and acquiring goods, services, or works from external sources, often by tendering or another competitive bidding process (Laffont, Jean Jacques, Tirole, 1993). Meanwhile, Yukins and Schooner describe procurement as an activity to obtain goods and services transparently, effectively, and efficiently according to the needs and desires of its users (Yukins, Christopher R; Schooner, 2007). From these definitions, it is clear that the purchasing process, which involves acquiring the correct goods and services in quality, time, quantity, the right source, and the right price, is a crucial element in the procurement process (Nani & Ali, 2020).

Procurement in ROE often faces various obstacles. One is weak oversight, which opens up opportunities for corruption and collusion (Søreide, 2017). In addition, inefficient procurement processes can lead to budget wastage, ultimately reducing the ROE's ability to provide quality services to the public. Therefore, the urgency of procurement policy in ROEs lies in creating a system capable of preventing irregularities and improving organizational performance (Fazekas & Blum, 2021). The purchasing process and competition are important principles that must be regulated in the procurement rules owned by the parties in need as resource holders in the form of finance, which is the source of profit targeted by the provider.

Regulating the procurement of goods and services has three dimensions intertwined with the objectives of policy formation in law (Noor, Marzuki, et al., 2023). The three dimensions are (Mustafa, 2021): First, economic efficiency considerations, namely how the rule of law balances the public interest, which is the realm of government with elements of business interests in the classical economic model; Second, political considerations, a crucial aspect that underscores the need for regulation of public procurement. This is based on the fact that the government uses procurement as a policy instrument to achieve various other socially and environmentally desirable goals, thereby significantly impacting society and the environment. Third, international relations considerations, namely public procurement regulation, have the function of maintaining or protecting national interests and domestic industries about international relations and trade.

The urgency of procurement policies in ROEs, from a legal perspective, is significantly influenced by the regulations in Indonesia. Law No. 23/2014 on Regional Government, for instance, underscores the significance of professionalism and accountability in ROE management. Similarly, Presidential Regulation No. 16/2018 on Government Procurement of Goods/Services provides crucial technical guidelines for every procurement process, including those within ROEs. These regulations play a pivotal role in ensuring transparent, efficient, and competitive procurement, thereby supporting the achievement of regional development goals. They are underpinned by the principles of good Corporate Governance (GCG), which form the basis for transparent, accountable, and professional organizational management.

When it comes to the procurement of goods and services in Regional-Owned Enterprises (ROEs), the application of Good Corporate Governance (GCG) principles is not just a recommendation, it's a necessity (Dzikri et al., 2023). These principles are instrumental in ensuring transparency, accountability, and efficiency in the management of public resources. A GCG-based procurement process is designed to meet the operational needs of the ROE and is crucial in building public trust and creating added value for all stakeholders (Riyanto, 2020). The five main principles of GCG- transparency, accountability, responsibility, independence, and fairness- are the cornerstone of ROE procurement (Kinyua et al., 2024; Syofyan & Putra, 2020).

First, Transparency. This principle empowers all interested parties by making the entire procurement process openly accessible. Information about the technical specifications of goods or services, provider selection criteria, and evaluation results is promptly submitted, preventing manipulative practices. This transparency instills confidence in goods and service providers, assuring them that the selection process is fair and competitive. In today's digital era, transparency can be further enhanced through electronic or e-procurement platforms, providing broad and real-time information access (Ahmad et al., 2023).

Second, Accountability. This principle mandates that every decision made in the procurement process must be accountable, ethically, legally, and administratively (Sary et al., 2024). The ability of officials or parties involved in procurement to explain and account for the steps taken, from planning to contract execution, is crucial (Francisco Bernardo & Rebecca Fiebrink, 2016). This accountability ensures that the procurement process is in line with organizational goals and significantly reduces the risk of abuse of authority.

Third, Responsibility. Applicable laws and regulations and standards of professionalism must procure goods and services in ROE. It includes compliance with regulations, such as Law No. 23/2014 on Regional Government and Presidential Regulation No. 16/2018 on Public Procurement. By implementing responsibility, ROE can ensure that the entire procurement process runs according to the rules, thus avoiding potential legal violations that can harm the organization.

Fourth, Independence. This principle emphasizes that the procurement process must be free from the intervention of parties with a conflict of interest. The parties involved, including the procurement committee, must maintain integrity and objectivity during the selection process. This independence is essential to prevent collusion, nepotism, or other unfair practices that can damage the credibility of the ROE (Bernatt & Jones, 2022).

Fifth, Fairness. The principle of fairness ensures that every provider is given equal opportunity to participate in procuring goods and services. There is no room for discriminatory treatment in favor of one party (Theodorakopoulos et al., 2015). A fair and competitive procurement process encourages innovation and ensures that the ROE gets the best quality goods and services at competitive prices, making all stakeholders feel secure and valued.

These principles should guide every stage of goods and services procurement in ROEs, from planning, announcement, and selection of providers to evaluation of work results. By consistently applying these five principles, ROEs can improve operational efficiency, minimize potential irregularities, and strengthen public trust. Furthermore, transparent, accountable, and fair procurement will improve the organization's overall performance while supporting regional development goals.

3.2. Obstacles to the Implementation of Good Corporate Governance and Their Solutions in the Procurement of Goods and Services in Regional-Owned Enterprises

Procurement of goods and services in Regional-Owned Enterprises (ROEs) is critical in supporting organizational activities and public services. However, implementing Good Corporate Governance (GCG) in procurement often faces various complex obstacles. These barriers come not only from internal and external factors, such as regulations, organizational culture, and limited resources. Various barriers faced by ROE in implementing GCG in the procurement of goods and services:

- a. **Lack of Transparency in the Procurement Process:** One of the main obstacles to implementing GCG is the lack of transparency in the procurement process. Information related to technical specifications, selection criteria, and evaluation results is often not adequately published. It opens up opportunities for manipulative practices, such as collusion and nepotism, which can harm the organization. The absence of an integrated e-procurement system in many ROEs is also a significant cause of the lack of transparency.
- b. **Lack of Accountability of Procurement Officials;** Accountability in public procurement is often a challenge, especially when decisions cannot be ethically or legally justified. In many cases, procurement officials do not have a deep understanding of applicable regulations and ethical standards, making the procurement process vulnerable to irregularities.
- c. **Intervention of External Interests;** ROEs often face intervention from certain parties with conflicts of interest. This includes pressure from local governments, business partners, or even certain individuals seeking personal gain. Such interventions can compromise the independence of the procurement process and lead to unobjective decisions.
- d. **Lack of Human Resources:** The shortage of skilled human resources in procurement is a major hurdle to GCG implementation. Many ROEs require staff with technical expertise and a deep understanding of the procurement process. Moreover, it's crucial to focus on training and development to bolster the capacity of procurement staff.
- e. **Lack of Clarity in Regulations and Procedures:** While various regulations govern the procurement of goods and services, such as Presidential Regulation No. 16/2018 on Public Procurement, their implementation in ROEs could be more consistent. The lack of precise interpretation of regulations and the absence of ROE-specific technical guidance are significant hurdles to ensuring compliance with the rules.
- f. **Unsupportive Organizational Culture:** The organizational culture in many ROEs needs to be more

conducive to optimal GCG implementation. Integrity, transparency, and professionalism should be integrated into the work culture. It makes GCG implementation challenging, especially when there is resistance from parties who feel disadvantaged by the changes.

- g. **Limited Information Technology:** Information technology, such as e-procurement, still needs to be improved in many ROEs. This technology is critical to increase transparency, efficiency, and accountability in the procurement process. With adequate technological support, procurement processes are faster and prone to irregularities.
- h. **Weak Supervision:** Weak internal and external supervision mechanisms are also a significant obstacle to GCG implementation (Mustaffa et al., 2024). Without adequate supervision, various irregularities in the procurement process often go undetected or are not followed up seriously. It provides opportunities for corruption and other unfair practices.
- i. **Leadership Instability:** Inconsistent or frequently changing leadership can also hinder GCG implementation. New leaders often bring different policies or approaches, which can disrupt the continuity of existing procurement programs. This instability also affects staff motivation and commitment to implementing GCG.

It is crucial to Address the Lack of awareness of the importance of GCG among ROEs management and staff. Many consider GCG only a formality or administrative obligation and must understand its positive impact on organizational performance and public trust. By raising awareness and providing information about the benefits of GCG, we can ensure that all stakeholders are well-informed and understand the importance of GCG in organizational performance and public trust (Sulaiman et al., 2024).

To overcome these obstacles, it is crucial to take strategic steps to support the implementation of GCG in ROEs. First, regulations must be strengthened to ensure the implementation of GCG principles. This can be achieved by harmonizing central and regional regulations, preparing detailed implementation guidelines, and enforcing laws consistently against violations. Second, Increased transparency in the procurement of goods and services should be a top priority (Fernandes, 2015). ROEs can develop reporting mechanisms that are open and easily accessible to the public. Digital platforms, such as e-procurement, can be a strategic step to improve information disclosure (Chan & Owusu, 2022). Third, strengthening oversight, which establishes an independent oversight team to monitor each stage of procurement, is an important step to ensure the integrity of the process (Komakech, 2016). This team should have sufficient authority to conduct audits, provide recommendations, and follow up on findings of violations. These strategic steps are essential for the successful implementation of GCG in ROEs.

With the development of information technology, the procurement process has the potential to evolve. By leveraging digital technology, we can minimize the risk of irregularities in procuring goods and services (Noor, Arifin, et al., 2023). An integrated e-procurement system allows the procurement process to be carried out more efficiently, transparently, and accountable. Furthermore, technology can be used to monitor contractor performance and ensure compliance with the agreed contract. By implementing these policies, ROEs can transform into transparent, efficient, and accountable entities, contributing optimally to regional development.

4. CONCLUSIONS

Goods and services procurement policies in regional-owned enterprises are important for realizing good corporate governance. This policy, which prioritizes transparency, accountability, efficiency, and effectiveness, can improve the performance of ROEs while building public trust in the management of regional companies. Transparency allows every procurement stage to be carried out openly, preventing corruption, collusion, and nepotism practices that are often challenging. Accountability ensures that every decision in procurement can be accounted for, both legally and ethically, so that the potential for abuse of authority can be minimized. That way, the reputation and credibility of ROEs are maintained as an institution that supports the interests of the community and regional development. Efficiency and effectiveness ensure resource optimization in procurement so that ROEs obtain quality goods or services as needed without burdening the budget. In addition, good procurement policies are the foundation of sustainable regional development, supporting economic, social, and environmental goals.

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