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Conflict of Interest in Public Procurement: A Case Study of Indonesian Government Institution XYZ

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ABSTRAK

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Penelitian ini bertujuan untuk menganalisis implikasi benturan kepentingan pada kegiatan pengadaan barang dan/atau jasa di Institusi Pemerintah Indonesia yang diidentifikasi berdasarkan motif adanya keuntungan pribadi, nepotisme dan pengaruh politik yang diterima oleh Panitia Pengadaan. Penelitian dilakukan melalui metode wawancara terhadap tujuh panitia pengadaan pada salah satu institusi pemerintah di Indonesia. Hasil penelitian menunjukkan bahwa penerimaan keuntungan pribadi berimplikasi terhadap proses pengadaan, karena kewenangan yang dimiliki panitia pengadaan berpeluang memanfaatkan celah pada tiap proses pengadaan, Kemudian nepotisme yang menyebabkan adanya keputusan bias oleh panitia pengadaan berdampak pada proses pengadaan tidak sesuai prosedur. Sementara itu, pengaruh politik pada panitia pengadaan, baik secara langsung maupun tidak langsung, memberikan risiko intervensi yang mengganggu proses pengadaan dari perencanaan hingga penetapan pemenang. Kemudian berdasarkan hasil analisis Cause Effect Diagram, ditemukan bahwa faktor-faktor seperti rendahnya prinsip moral individu, kurang optimalnya pengawasan melekat, serta kurangnya sanksi yang tegas terhadap pelaku kecurangan, menjadi pemicu utama terjadinya benturan kepentingan dalam proses pengadaan. Usulan perbaikan yang dapat diterapkan antara lain penerapan prinsip moral yang diharapkan mendorong individu yang terlibat dalam pengadaan untuk mengutamakan kepentingan institusi dan adanya keterlibatan pengawas internal dalam setiap tahap proses pengadaan sehingga dapat membantu mengidentifikasi tanda-tanda kecurangan atau "red flags" yang muncul selama proses berlangsung.

ABSTRACT

This research aims to analyze the implications of conflicts of interest in procurement activities within Indonesian government institutions, focusing on motives such as personal gain, nepotism, and political influence on Procurement Committees. The study conducted interviews with seven procurement committees in a government institution in Indonesia. The findings indicate that the acceptance of personal gain significantly affects the procurement process, as the authority held by procurement committees provides opportunities to exploit gaps in each procurement

process. Additionally, nepotism leads to biased decisions by the procurement committee, resulting in deviations from established procedures. Meanwhile, political influence on procurement committees, both directly and indirectly, poses a risk of intervention that disrupts the procurement process from planning to the determination of winners. Furthermore, based on Cause-Effect Diagram analysis, it was found that factors such as low individual moral principles, suboptimal inherent supervision, and the lack of stringent sanctions against fraudulent actors are the main triggers of conflicts of interest in the procurement process. Proposed improvements include the implementation of moral principles to encourage individuals involved in procurement to prioritize institutional interests and the involvement of internal supervisors in every stage of the procurement process to help identify signs of fraud or "red flags" that arise during the process.

INTRODUCTION

One of the core processes in Supply Chain Management according to The Global Supply Chain Forum is Procurement: A strategic process involving the selection and management of the right suppliers to ensure the supply of quality and cost-effective raw materials, components, and services. This activity includes supplier qualification, contract negotiation, and supplier relationship management (Croxtton et al., 2001). In the Organisation for Economic Co-operation and Development (OECD) 2001 Report, the total value of government procurement was estimated at around 2,000 billion USD, equivalent to 7% of the world's GDP. This indicates that procurement activities are one of the key operations within government institutions, as they are critical considerations for assessing the growth of a country from both economic and social perspectives (Odhiambo & Kamau, 2003). The substantial state budget allocated for procurement activities has the potential to create conflicts of interest and corruption (Kaštelan Mrak et al., 2016). Procurement in government institutions can be influenced by the emergence of conflicts of interest in various processes, starting from budget allocation, procurement planning, specification formulation, tender evaluation, to contract administration (Philly et al., 2017). Conflicts of interest impact the high cost of procuring goods, wastage of resources through non-urgent purchases, procurement of substandard goods, and even corruption, all of which have the potential to impede the development of private sector capacity (Tutu, 2017). Around 40 percent of the Indonesian Government budget is allocated for public procurement. However, in the last 10 years, embezzlement cases in public procurement have ranked second after bribery (Komisi Pemberantasan Korupsi, 2017).

LITERATURE REVIEW

Procurement performance involves two main aspects: effectiveness and efficiency. Procurement effectiveness is the extent to which set goals and objectives are met, while procurement efficiency is the relationship between planned resources and those actually needed to achieve the related goals and activities. To achieve all of this, the procurement system must operate effectively and productively (Makali, 2015). According to the OECD, one of the duties of the procurement committee is to ensure that the procurement process runs efficiently and economically and is understandable to all stakeholders (government, authorities involved in the procurement process, and providers). However, according to the OECD Development Center, although some developing countries have begun to improve their procurement processes, deviations such as corruption, collusion, and mark-ups are still prevalent. In several developing countries, one of the main obstacles to achieving efficient procurement performance is the conflict of interest among procurement committees. The implications of conflicts of interest vary in each institution and even each country, but the impact of conflicts of interest in procurement is almost the same, resulting in suboptimal procurement activities (Tutu et al., 2017). In Indonesia, conflicts of interest can become one of the modes of corruption that occur in public procurement. Corruption is modeled as a bidding game where companies compete to bribe procurement managers to gain advantages in the selection process (Haryadi et al., 2018).

The OECD (2007) categorizes conflicts of interest into two categories: financial interests and non-financial interests. Financial interests involve real or potential financial gains. These interests may arise when procurement committees or their family members own property, hold shares, or hold positions in companies participating in government tendering and subsequently receive returns from these. Non-financial interests do not involve financial components. Non-financial interests may arise from personal or family relationships, or involvement in sports, social, or cultural activities. The facts indicate that individuals are motivated to commit fraud not only because there are opportunities but also because they seek to exploit these opportunities to engage in fraudulent activities for personal gain (Cieslewicz, 2012). One element of The Fraud Triangle is opportunity, which triggers individuals to exploit weaknesses in internal controls within a system (Norman et al., 2010). According to Søreide (2002), Deviation in government procurement can be caused by political factors, often stemming from decisions made by high-ranking officials. Corruption offenses that occur during budget planning and decision-making processes regarding procurement activities are typically carried out by high-ranking institutional officials.

Corruption in public procurement leads procurement authorities to select providers based on the bribes offered, without considering the cost and quality of the best providers. As a result, project values are inflated, and there is procurement of unnecessary items that do not align with user requirements (Søreide, 2002). In line with Philly (2017), nepotism has a negative impact on procurement performance. Nepotism is the practice of hiring or providing advantages to relatives or close friends without considering their qualifications or competence. In the context of procurement, nepotism can lead to the procurement of goods and services from suppliers who are not competent or at higher prices, as these suppliers have personal relationships with individuals involved in the procurement process. Political influence has a negative impact on procurement performance. Political influence refers to the intervention of external parties in the procurement process, such as politicians, government officials, or representatives of specific interests. This intervention is usually aimed at winning tenders or procurement contracts for certain parties, even though they may not have adequate qualifications or competence.

This research aims to analyze the implications of conflicts of interest in the procurement of goods and services within Indonesian Government Institutions, identified based on motives such as personal gain, nepotism, and political influence received by the Selection Working Group involved in the procurement process. Subsequently, based on the data analysis results, the researcher proposed ways to address conflicts of interest through the Cause-Effect Diagram method.

METHODS

This research utilizes a qualitative descriptive design to gain an in-depth and comprehensive understanding of the social phenomenon under investigation within its natural context. Qualitative research methods prioritize comprehending the meaning and interpretations associated with the phenomenon being studied. In this approach, the researcher acts as the key instrument for data collection and analysis. Data collection was conducted through triangulation, employing various methods to acquire a more holistic picture of the phenomenon. Triangulation can be achieved by combining methods like observation, interviews, and document analysis (Sugiyono, 2013; Abdussamad, 2022; Creswell, 2017). Data was collected through interviews with parties involved in the procurement of goods and services in the Government Institutions Procurement Committee, and according to Presidential Regulation (PERPRES) Number 12 of 2021 namely Pejabat Pembuat Komitmen, Kelompok Kerja Pemilihan and Vendors. The analysis utilized the following elements as the

motives for conflict of interest: Personal Gain, nepotism, and political influence. The research examined how these motives manifest in the procurement process and their impact on the efficiency, fairness, and transparency of the process. This study hoped that the findings could contribute to a better understanding of the challenges faced in government procurement and provide recommendations for mitigating the risks of conflict of interest. The researcher conducted a Cause-Effect Diagram analysis to identify the root causes of conflict of interest in the procurement of goods and services. This involves identifying the main factors contributing to the problem and their interconnected relationships. Based on the findings of the research, the researcher proposed strategies to mitigate conflict of interest in government procurement.

RESULTS AND DISCUSSION

This study employed a qualitative approach, utilizing in-depth interviews with seven informants possessing knowledge and experience related to government procurement processes. The study findings indicated significant implications of conflict-of-interest elements (personal gain, nepotism, and political influence) on government procurement processes.

Tabel 1 Implications of Conflict of Interest in Procurement

No	Informant	Conflict of Interest in Public Procurement		
		Personal Gain	Nepotism	Political Influence
1	Informant 1	Implies	Implies	Implies
	Statement	The authority held by the Procurement Officer (PPK) can provide opportunities in each procurement process, thus the acceptance of personal gains can influence the procurement process.	Nepotism can have implications in the procurement process if it deviates from procedures and leads to inadequate quality or outcomes of the procurement. However, if nepotism is solely for providing references and the provider can follow the procedures, then it does not have implications.	Interventions resulting in changes in price and specifications (HPS), if not in accordance with procedures, can have implications on the procurement process.
2	Informant 2	Implies	Implies	Implies

	Statement	Conflicts of interest (both personal gain and nepotism), when accompanied by malicious intent resulting from poor moral values, will impact decision-making during the procurement process, consequently affecting the outcome and quality of work.	Interventions coming from more powerful parties typically can influence decision-making during the procurement process.
3	Informant 3	Implies	Implies
	Statement	The acceptance of kickbacks by the procurement committee is usually widespread and done collectively, with one of the reasons being the lack of direct supervision, which subsequently leads to unhealthy competition in procurement.	Unprofessional relationships (kinship and friendships) between procurement committee members and providers can result in biased decisions during the procurement evaluation process.
4	Informant 4	Implies	Implies
	Statement	Conflicts of interest should be effectively prevented, one approach being the utilization of Conflict of Interest (COI) declarations within the government sector. The ramifications of conflicts of interest involving procurement committee members can significantly impact the decision-making process.	Intervensi dari pihak diluar panitia pengadaan dapat berimplikasi terhadap proses pengadaan, sehingga dibutuhkan perlindungan dan tupoksi yang jelas bagi panitia pengadaan agar tidak ada campur tangan pihak lain dalam proses pengadaan
5	Informant 5	Implies	Implies
	Statement	Personal gain can lead to biased decisions and erroneous preferences among procurement committee members. However, when preferences are accompanied by justifications related to the quality of the provider, this can assist the procurement process in effectively evaluating and selecting participants.	Nepotism can lead to biased decisions, hence the significance of early declaration of conflicts of interest to ensure a smooth procurement process, particularly during the evaluation stage.
6	Informant 6	Implies	Implies
	Statement	External interference in the procurement process can have detrimental implications, often stemming from miscommunication between user requirements and the procurement committee. Therefore, clear authority and well-defined work plans are essential to ensure a smooth and effective procurement process.	

	Statement	Personal gain often leads to preferential treatment by the beneficiary towards specific parties, resulting in evaluation bias.	The presence of nepotism, leading to biased decision-making during the procurement process, can have detrimental implications on the quality and outcomes of the procured work.	This phenomenon is particularly prevalent in large-scale procurement projects due to the vested interests of influential parties. These interventions typically manifest throughout the entire procurement process, from planning to the selection of the winning bidder.
7	Informant 7	Implies	Implies	Implies
	Statement	Personal gains received by members of the procurement committee lead to unfairness and preferential treatment during the procurement process.	Nepotism introduces preferential treatment by the procurement committee, potentially influencing the determination of the estimation of the highest price (HPS) and the formulation of specifications, thereby impacting the procurement process.	Political influence carries the most significant implications due to its origin from powerful individuals who often hold authority over the procurement committee. Consequently, interventions or undue influence from these powerful entities can manifest throughout the entire process, from planning to the selection of the winning bidder.

Personal gain and Procurement

Personal gain for government procurement committee members can contribute to the manipulation of the entire process, from planning to awarding contracts, threatening fair competition and public trust. This statement is supported by the findings from Smith (2006) and Ocheje (2001). Smith (2006) found that personal gain can lead procurement committee members and public officials to engage in unethical behavior. Ocheje (2001) argued that corrupt procurement practices, which are often driven by personal gain, can increase procurement transaction costs and undermine the goal of efficient and effective procurement. The interview results also support the claim that personal gain for procurement committee members can lead to manipulation throughout the procurement process, from planning to awarding contracts. This manipulation can take various forms, including colluding with providers to set HPS, tailoring specifications to favor specific providers, and conducting inadequate evaluations to accommodate particular providers. These findings are consistent with previous research that suggests that public officials who engage in corrupt procurement practices often collude with providers, selling information to them during HPS and

specification preparation, leading to unfair competition. Additionally, procurement committee members may manipulate the evaluation process to favor specific providers (Shu Hui et al., 2011). Andvig et al. (2001) argued that manipulation of information by procurement committee members or public officials who receive personal gain is a common method of corruption in government procurement.

In summary, the research and interview results presented here strongly support the claim that personal gain for government procurement committee members can significantly compromise the integrity and effectiveness of the procurement process, leading to unfair competition, increased costs, and erosion of public trust.

Nepotism and Procurement

Corruption in government procurement, as defined by the United Nations Commission on International Trade Law (UNCITRAL, 2008), involves the offering, giving, receiving, or requesting something of value to influence the procurement committee's actions in the selection of providers and contract execution. Favoritism, according to Akomah (2018), occurs when a procurement committee member gives preferential treatment to a particular provider, disadvantaging other potentially more competent parties. Nepotism, as defined by Svensson (2005), is the practice of giving preferential treatment to family members, members of the same tribe, or close friends. As a result, many contracts ultimately end up in the hands of relatives and friends of procurement committee members or public officials. Based on the interview results, one of the measures that government institutions take to address conflict of interest in the form of nepotism in the procurement process is a Conflict-of-Interest declaration. This is done when the procurement process involves someone who is related to a procurement committee member. The procurement committee member may then withdraw from the process to avoid bias in decision-making. According to Hardell et al. (2007), a conflict of interest can occur when a procurement committee member or public official has an undisclosed personal interest that hinders them from carrying out their procurement duties professionally. This conflict of interest may involve family or friendship ties with tenderers, ownership of shares or financial interests in companies involved in procurement, or the receipt of gifts or gratuities from tenderers.

In summary, corruption, favoritism, and nepotism are serious problems in government procurement that can have significant negative consequences. Governments need to take strong measures to prevent and address these issues in order to ensure fair, transparent, and accountable procurement practices.

Political influence and Procurement

Political influence exerted on the procurement committee, typically takes the form of direct or indirect intervention, often by those in positions of power and authority within an institution. The influence of these powerful figures can extend from the planning stage to the selection of the winning bidder. Powerful individuals within institutions can influence procurement committees to favor specific companies, often resulting in lower-quality work. This political interference can start from planning to contract award (Akomah, 2018). The interview results revealed that the influence of powerful figures on the procurement committee compels the committee to act in violation of procedures to accommodate the orders of their superiors. This finding aligns with the assertion of Khalil et al. (2010) that procurement committee members in weaker positions are more likely to succumb to intervention from those in positions of power. One way to identify conflict of interest is through the quality of the work. Poor-quality work, delays, and requests for contract amendments or extensions can indicate corruption (Osei-Tutu, 2010). Other forms of corruption include bid rigging, splitting projects into smaller ones to avoid tendering, and unjustified contract changes to benefit specific parties (Campos & Pradhan, 2007). According to the Indonesian Corruption Eradication Commission (KPK, 2022), bribery and corruption in government procurement have been the most common offenses in the past decade. This is due to a lack of professionalism and moral principles among those in power and a lack of enforcement of sanctions (Djankov et al., 2003).

In summary, political influence, a lack of professionalism and moral principles, and weak enforcement of sanctions can all contribute to corruption and poor-quality work in government procurement. Governments need to address these issues to ensure fair, transparent, and accountable procurement practices.

CONCLUSION

This study aims to analyze the implications of conflict of interest in the procurement of goods and services in Indonesian Government Institutions. Conflict of interest is defined in three elements: personal gain, nepotism, and political influence on the procurement committee. The main findings of this study are as follows:

1. Conflict of interest in the form of personal gain can lead to manipulation of the procurement process, from planning to determining the winner.
2. Nepotism can lead to biased decisions by the procurement committee, resulting in the procurement process not conforming to the procedures.

3. Political influence can lead to intervention in the procurement process, which can lead to the selection of vendors who are not qualified or who do not offer the best value for money.

After identifying the causes using a cause-and-effect diagram, several factors were found to contribute to a conflict of interest impacting the procurement process of goods and services. These include:

1. Low moral principles of individuals.
2. Suboptimal implementation of direct supervision, which creates loopholes for conflict of interest to arise during the procurement process.
3. Other uncontrollable factors outside the procurement process, such as weak sanctions and punishments for those who commit procurement fraud.

Based on these identified phenomena, several improvement proposals have been formulated:

1. The importance of strong moral principles for each individual, particularly procurement committee members. Individuals with high moral principles are more likely to avoid fraudulent behavior, even in the absence of internal institutional oversight. This can be achieved through the implementation of OECD guidelines, including: establishing clear and comprehensive guidelines and policies that outline ethical standards, providing training and education, developing and enforcing ethics codes and codes of conduct, fostering a culture of transparency and accountability, implementing robust conflict of interest management procedures, engage with stakeholders, including suppliers, government agencies, and civil society organizations, to solicit feedback, address concerns, and promote ethical procurement practices.
2. The involvement of the inspectorate in each stage of the procurement process helps identify early signs of irregularities or "red flags" that indicate unusual activity and potential fraud during the procurement process.

The solutions presented in this study are confined to the problems identified during data collection at Institution XYZ. This research can be expanded by collecting data from other government institutions in Indonesia to obtain a more comprehensive list of issues, enabling the development of more appropriate solutions. As this study is qualitative in nature, the findings may not be generalized to other populations. Based on the limitations of this study, future research can collect data from other government institutions in Indonesia to

obtain a more comprehensive list of problems that can lead to a better understanding of the challenges faced in public procurement and help in identifying more generalizable solutions.

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