

CHAPTER I

INTRODUCTION

1.1. Background

In the last two decades, the principles of good governance are becoming increasingly popular in the implementation of the government. Especially after (Osborne & Gaebler, 1993) stated that the greatest failure of the government is weak management. The problems do not lie in what the government does, but how the government performs. The term "governance" appeared in a variety of disciplines and growing rapidly due to changes in social theory causes people see the world differently. Governance is different from the government because they tend to focus on practice and social activities compared with the state and its institutions (Bevir, 2012)

Governance is described in different ways by various international agencies (Phillips, 2007). (World Bank, 2002) offers a definition of governance as rules, enforcement mechanisms and organizations. Meanwhile, the Organization for Economic Co-operation and Development (OECD) provide a clear definition of good governance in the implementation of political, economic and administrative authority to manage the affairs of nations (OECD, 2007). OECD also implement good governance in six primary indicators including participation, transparency, accountability, the rule of law, effectiveness and equity.

In a study conducted by (Kaufmann, et al., 2009) concluded that there is a direct relationship between good governance, stable government, and socio-

economic conditions. To measure the quality of good governance, there are several governance indicators has been made, as was done by the World Bank with Worldwide Governance Indicators (WGI). Worldwide Governance Indicators (WGI) can provide a snapshot comparisons between countries in managing the government. Worldwide Governance Indicators (WGI) is a long-term project to develop the cross-country governance indicators. The six indicators are voice and accountability (VA), political stability and absence of violence and terrorism (PV), government effectiveness (GE), the quality of regulation (RQ), the rule of law (RL), and corruption control (CC). These indicators reflect the governance and development as an important goal that will be faced by the government.

Indonesia as a developing country has sought to achieve good governance after the political and economic crisis in 1997. This is as a base to make corrections to the various concepts, methods, and practices of the organization of the nation and state, which is believed to be a factor the cause of this multidimensional crisis (Rasul, 2009). The government's efforts manifested in the MPR Decree No. XI / MPR / 1999 on Clean and Free State Implementation from Corruption, Collusion, and Nepotism and The Law No. 28 / 1999 on State Implementation of the Clean and Free from Corruption. As stated in Article 3, published principles of state administration includes: (1) the principle of legal certainty; (2) the principle of orderly organization of the state; (3) the principle of general interest; (4) the principle of proportionality; (5) the principle of professionalism; and (6) the principle of accountability. To strengthen this commitment to the eradication of corruption, clarified in Presidential Instruction No. 5 / 2004 on Accelerating the Eradication of Corruption. These three rules are the starting point for the implementation of good governance in Indonesia.

Efforts by the government to accelerate the eradication of corruption is perceived not enough to bring good governance, as seen from the rank of Indonesia among ASEAN countries in the Worldwide Governance Indicators (WGI) in 2014, as in the table below:

Table 1. 1. Worldwide Governance Indicators (WGI) in ASEAN Countries

No.	Country	Indicators (2014)						
		CC	GE	PV	RQ	RL	VA	Total
1	Singapore	97,12	100,00	92,23	100,00	95,19	45,32	88,31
2	Brunei Darussalam	71,63	81,73	95,15	79,81	70,19	28,57	71,18
3	Malaysia	68,27	83,65	58,74	75,96	75,00	36,95	66,43
4	Philippines	39,90	61,54	22,82	51,92	43,27	52,71	45,36
5	Indonesia	34,13	54,81	31,07	49,04	41,83	53,20	44,01
6	Thailand	42,31	65,87	16,50	62,02	51,44	25,62	43,96
7	Viet Nam	37,50	52,40	46,12	30,29	44,71	9,85	36,81
8	Lao PDR	25,00	39,42	61,17	21,15	26,92	4,43	29,68
9	Cambodia	12,50	25,48	44,66	37,02	17,31	17,73	25,78
10	Myanmar	17,31	8,65	11,65	6,25	8,65	9,36	10,31

Source: World Bank (2014)

The table above shows that efforts to accelerate the eradication of corruption failed. The whole effort should be the first step in the enforcement of reforms in the legislation, which should proceed with its application seriously and implemented with full responsibility (Rasul, 2009). Corruption became one of the serious problems faced by Indonesia and the biggest obstacle in creating good governance (Azra, 2010). The high level of corruption in Indonesia indicated that corruption was widespread in various fields of human life and has been going in the long term. Resulting in the accumulation of financial losses, the country's economy and affect the welfare of the people and hamper the national development. Recognizing the urgent need to tackle corruption, in 2003 formed a

new government agency called the Corruption Eradication Commission (KPK). The firm aims to liberate Indonesia from corruption with the authority to investigate and prosecute corruption cases as well as monitor the state administration. KPK has handled 468 cases from 2004 to 2015. The statistical data from KPK mentions, 224 bribery cases, the procurement of goods/services 142 cases, 44 cases of misuse of funds, levies 20 cases, 19 cases of permitting, TPPU 14 cases, and hinder the KPK process 5 cases.

Corruption in the procurement of goods/services was ranked second in the number of cases handled by KPK, but according to recent research from A.T. Kearney. Indonesia loses 55.6 trillion annually due to poor public procurement. Public procurement is essentially an attempt by the government to obtain or realize goods / services by using specific methods and processes to achieve a deal price, time and other agreements. An effort to reduce the level of corruption in public procurement is by using an information and communication technology. Adoption of information and communication technology are expected to contribute significantly to the eradication of corruption, particularly in public procurement by using e-procurement, and the use of e-government to improve the quality of public services and increasing active participation in the provision of information more efficiently for the community. According to (Ebrahim & Irani, 2005) e-government strategy is a fundamental element in the modernization of the public sector, through the identification and development of organizational structures, ways of interaction with the public and businesses, and reduce costs in the business process organization.

Efforts to reduce corruption in procurement is to implement e-procurement. Implementation of e-procurement indicates the government's efforts to provide

more integrated services and quality and keep up with technology. E-procurement using the Internet to reduce costs, changing the routine purchases, reduce the procurement time, and build relationships with suppliers (Chopra, et al., 2001); (Davila, et al., 2003); (de Boer, et al., 2002); (Rotchanakitumnuai, 2013); (Tassabehji, 2010).

The legal basis for the formation of LPSE is Article 111 of Presidential Decree No. 54 / 2010 on Procurement of Government Goods and Services, the provision of technical operations in Head of the National Public Procurement Agency (LKPP) Rule No. 2 / 2010 about Electronic Procurement Service (LPSE). LPSE in organizing the service system in the procurement of goods and services is also subject to the requirements as stipulated in Law No. 11 / 2008 on Information and Electronic Transactions.

The principles which should be applied in the public procurement, as stated in the explanation of Article 5 of Presidential Regulation No. 54 / 2010, are as follows: efficient, effective, transparent, open, competitive, fair / non-discriminatory and accountable. E-procurement can be an instrument to reduce corruption, collusion, and nepotism because through e-procurement auction becomes free, so it will appear that offers a more rational, even for bidders who are not in the network may also participate. Policy implementation of e-procurement is done by optimizing the use of advances in information technology to achieve good governance through the public procurement services that are free of corruption, collusion, and nepotism. This is in line with the Corruption Perception Index, which assesses the extent to which corruption is perceived to exist among public officials and politicians in all countries around the world. Using a scale of one to ten (starting in 2012 use a scale of 1-100). The higher the result, corruption

was considered insignificant. In the recent list (2014) Indonesia ranks 107 (out of a total of 175 countries). However, it should be emphasized that there is no 100 percent accurate method to measure corruption because of the nature of corruption (often hidden to the public). The figures below (see Table 1.2.), shows the level of corruption perceived by the voters who participated in the poll of the particular country.

Table 1. 2. Corruption Perception Index in ASEAN Countries (2010-2014)

No.	Country	2010	2011	2012	2013	2014
1	Brunei Darussalam	5,5	5,2	55	60	-
2	Cambodia	2,1	2,1	22	20	21
3	Indonesia	2,8	3,0	32	32	34
4	Lao PDR	2,1	2,2	21	26	25
5	Malaysia	4,4	4,3	49	50	52
6	Myanmar	1,4	1,5	15	21	21
7	Philippines	2,4	2,6	34	36	38
8	Singapore	9,3	9,2	87	86	84
9	Thailand	3,5	3,4	37	55	38
10	Viet Nam	2,7	2,9	31	31	31

Source: Transparency International (2015)

From these figures, it appears that after the implementation of the electronic procurement, the index of perception of corruption in Indonesia has increased gradually annually. This shows that the performance of public e-procurement technology can help reduce corruption in public procurement. This is supported by data from KPK Annual Report on the number of corruption cases handled by KPK.

The number of cases of corruption in the procurement (2010-2014) is not much different than before the implementation of e-procurement. But it showed a slight decrease in the number of cases of corruption in the procurement of

goods/services as many as 61 cases. Bribery cases rose significantly to 148 cases. To more clearly seen in the table below.

Table 1. 3. Corruption Cases After E-procurement Implementation (2010-2014)

No	Type of Case	2010	2011	2012	2013	2014	Total
1	Procurement Good/Services	16	10	11	9	15	61
2	Permit Issuance	0	0	0	3	5	8
3	Bribery	19	25	34	50	20	148
4	Illegal Fee	0	0	0	1	6	7
5	Budget Fraud	5	4	3	0	4	16
6	Money Laundering	0	0	0	7	5	12
7	Hindering KPK Process	0	0	0	0	3	3

Source: KPK Annual Report (2011-2014)

According to (Neupane, et al., 2012), access real-time information through e-procurement is an important factor to control corruption in public procurement. Accounting and audit stage is prone to corruption. The implementation of public e-procurement technology can reduce corruption in public procurement. Transparency and accountability are the most efficient way to reduce corruption in public procurement. Efficiency in the transmission of documents and automation of the procurement process can reduce corruption in government procurement.

Some Ministries / Agencies / Institutions / local government started to prepare the infrastructure and human resources to begin implementing e-procurement. LKPP as a regulator and provider of SPSE for all Indonesian government agencies. Data created by LKPP indicate that there are 635 LPSE in 34 provinces and 731 institutions in Indonesia, to more clearly see table below.

Table 1. 4. LPSE Implementation

No	Description	2010	2011	2012	2013	2014	2015
1.	LPSE System Providers	98	273	501	547	597	620
2.	LPSE Service Providers	39	42	42	55	19	15
3.	LPSE	137	315	543	602	616	635
4.	Provinces Served	28	31	33	33	34	34
5.	Agencies Served	254	613	731	731	731	731

Source: LKPP (2015)

Magelang Municipality began to implement e-procurement since 2011 with the establishment of LPSE Magelang Municipality. LPSE Magelang Municipality was formed under the coordination of the Development Section of Regional Secretariat of Magelang Municipality. Members of LPSE come from different SKPD with the Head of Development Section as Head of LPSE Magelang Municipality and Head of Information Technology at the Department of Transportation, Communication and Information as Vice Head of LPSE. LPSE team is assisted by a member of several SKPD that previously have received Training of Trainers (TOT) on LPSE system. The legal basis for the establishment of LPSE Magelang Municipality is Mayor Regulation No. 31 / 2011 on Electronic Procurement Services of Magelang Municipality.

In 2015, LPSE Magelang Municipality has conducted an auction of goods/services as much as 238 auctions with a budget ceiling of 335.3 billion rupiahs and achieve an efficiency of 9.95%. To describe the trends of e-procurement implementation in Magelang Municipality during 2011-2015, it can be seen as follows

Table 1. 5. E-procurement Trend in Magelang Municipality

	2011	2012	2013	2014	2015	Total
Auctions	2	54	50	59	73	238
Budget (million)	362	116.245	69.492	68.901	100.002	355.002

Source: LKPP (2015)

Under the provisions of Presidential Decree No. 4/2015 on the fourth amendment to Presidential Regulation No. 54/2010 concerning Procurement of Government Goods / Services, the Regional Development is the responsibility of the government should be supported by the accelerated implementation of public expenditure carried out through the electronic procurement. Constraints in the public procurement can be overcome by forming a special unit for the Procurement Service with the use of technology-based information. It aims to ease the burden of managing the procurement of goods/services that the Government seeks to maintain the accountability in the implementation of the public procurement.

One form of the Acceleration of Development by the provisions of Article 14 Paragraph 1 of Presidential Regulation No. 54 of 2010 with some amendments, each Ministry / Agency / Local Government / Institutions need to establish Establishment of Procurement Services Unit of Goods / Services. ULP is an organizational unit of the Ministry / Agency / Local Government / Institutions that serve to implement the Procurement of Goods / Services that are permanent or attached to existing units. The need for the ULP, especially for Local Governments not to meet the obligations of the regulation, but the ULP is an urgent need that must be established to ensure the election of providers of goods / services in the regional government in a transparent, integrated and unified.

To support the public procurement through e-procurement, Development Section took the initiative to establish the Procurement Services Unit (ULP) in 2012. According to Mayor of Magelang Municipality Regulation No. 71/2012, ULP Magelang Municipality is under the supervision of the Equipment Section Magelang Municipality Regional Secretariat. There are technical problems in implementation, lack of standard operating procedures in the procurement documents thereby extending the time of e-procurement.

In 2015, according to Mayor Regulation No. 11/2015, the Procurement Services Unit (ULP) move to the Development Section of Regional Secretariat of Magelang Municipality. The policy followed by creating of the rules relating to the procedures for procurement services. These rules are still partially and not meet the standards of procurement. Standard Operating Procedure (SOP) of ULP is intended to regulate the procedures and steps in the process of filing public procurement plan documents to the ULP. As the operational standards for both organizers ULP, LPSE, PA / KPA or related SKPD in filed public procurement plan documents to the ULP. Standard Operating Procedure (SOP) is one critical component in service quality in measuring the success of information systems. So from the above problems, it is necessary to carry out an assessment of the success of e-procurement system in Magelang Municipality.

E-procurement is important in all aspects of government so the bidding process will be more efficient, effective, and transparent. This will reduce costs, corruption and misallocation of public resources in Indonesia. Several previous studies have shown that implementation of e-procurement supports accountability in the public sector, Based on the research above, (Nurmandi & Sunhyuk, 2015)

conducted research in three local governments in Indonesia (Yogyakarta, Tangerang, and Kutai Kartanegara Regency) to examine the implementation of e-procurement initiatives in decentralized systems at the local government system in Indonesia. Results from these studies are the independent variable in the efficiency and effectiveness of e-procurement has no significant effect on all local government, but the administration of human resources is a major factor that determines the performance of e-procurement in three local government.

In contrast, (Hidayat, 2015) focuses on the obstacles encountered in implementing e-procurement are effective and efficient by taking research sites in four local governments in the province of East Java. These constraints are an indicator of transparency and accountability are not clear, lack of political commitment in the local government, There is no e-government system that is integrated with e-procurement systems, and weak internal monitoring carried out by the central government and local government.

From several previous studies above, mention the successful implementation of e-procurement in some local government measure from efficiency and effectiveness. But the evaluation is necessary if the assessment is applied only to the technical procedures of public procurement course it can not be known with other problems from the system. It would be more effective and efficient if done by evaluation of the success of the system, especially in the implementation of an e-procurement system. There are several factors that assess the success of information systems, but there is no standard measurement of the success of information systems. Although there has been no standard, this analysis is needed,

especially in government agencies that implement e-government system of one e-procurement.

(Delone & McLean, 2003) Offers a model for assessing the system. This model is considered suitable for evaluating the success of the system, proved to have many researchers use this model although the results vary. By assessing the success of an e-procurement system using the model DeLone and McLean is expected Magelang Municipality government can retrieve information as the process of implementing e-procurement. The success of the system has been applied necessary to measure the performance of the public sector in implementing e-procurement seen from the adoption of the principles of good governance in public procurement

1.2. Research Questions

Based on the research background, the research question is formulated as follows:

1. Does system quality, information quality, and service quality significantly influence the intention to use on e-procurement services in Magelang Municipality?
2. Does system quality, information quality, and service quality significantly influence the user satisfaction on e-procurement services in Magelang Municipality?
3. Does intention use significantly influence the user satisfaction and net benefit of e-procurement services in Magelang Municipality?

4. Does user satisfaction significantly influence the net benefit of e-procurement services in Magelang Municipality?
5. Does system quality, information quality, and service quality significantly influence the net benefit of e-procurement services in Magelang Municipality?

1.3. Research Objectives

The Objectives of this study is to describe and analyze the problem as follows:

1. The influence of system quality, information quality, and service quality towards the intention to use on e-procurement system in Magelang Municipality.
2. The influence of system quality, information quality, and service quality towards the user satisfaction on e-procurement system in Magelang Municipality.
3. The influence of intention to use towards the user satisfaction and net benefit on e-procurement system in Magelang Municipality.
4. The influence of user satisfaction towards the net benefit on e-procurement system in Magelang Municipality.
5. The influence of system quality, information quality, and service quality towards the net benefit on e-procurement system in Magelang Municipality.

1.4. Significance of Research

The importance of this research in detail as follows:

1. Practically, the findings obtained from this study will be valuable information for local governments Magelang Municipality as a contribution of ideas and concepts to improve understanding of the e-procurement success factors towards the good governance principles practice in Magelang Municipality;
2. Theoretically, this study will enrich the scope of the science of public administration, in particular, related to the study of the e-procurement success factors towards the good governance principles practice in Magelang Municipality.