The Effect Of Budget Requirements And Management On The Performance Of Goods And Services Procurement System

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Abstract
This research, therefore, has been done to investigate the influence of budget requirements and management on procurement for goods and service performance in the Indonesian system. In this study, the focus will be on how the organizational needs are met and how effective the management of budget resources is in the procurement system. Despite the improvement made on regulations, challenges remain on compliance in relation to the needs of procurement and budgetary constraints. This research applies a document analysis and literature review to qualitative approach the assessment of these factors. Findings from this study show the importance of the need for the precise identification of need, stakeholder involvement, and strong cost control mechanisms. Overcoming these challenges can significantly enhance procurement efficiency and effectiveness within organizations.

Keywords: Procurement System, Budget Management, Organizational Needs, Indonesia, Qualitative Research

INTRODUCTION

The process of acquiring goods and services plays a role, in the operation of both private entities. How well this system functions can greatly impact efficiency, resource management and the overall success of an organization. In Indonesia there is an effort to update regulations governing procurement to promote transparency, accountability and efficiency. The recent regulation, Presidential Regulation No. 16 of 2018 on Government Procurement of Goods/Services aims to enhance the procurement process in the sector (Government of the Republic of Indonesia 2018; Hidayat, 2015).

Despite enhancements challenges persist in implementing the procurement system for goods and services. Two key factors often emphasized are alignment, with requirements and effective use of budget resources. It is essential to evaluate how well the procurement system performs based on these factors to ensure that it not complies with procedural standards but also effectively meets organizational needs while optimizing budget allocation (Thai, 2001).

1. Necessity Factors in Procurement

During the process of purchasing goods and services, however compliance in regards to needs refers to how much these are really required by everyone including such organization. A need should be identified, and the reason for this requirement will have to originate from a deep analysis of what are strategic, operational or tactical goals that organization is aiming towards. If the procurement underpins and aligns with your organizational requirements, then it will enable you to meet those key objectives.

Key Aspects of the Need Factor:
a. Need identification: the first step is understanding the needs of different units in the organization. This includes the analysing if it is necessary having to work on short term or if its a long time need, and also their priorities in the organisation.
b. Product/service suitability - the goods or services should meet the requirements and standards of purchase. This creates a well-rounded functionally appropriate and quality procurement.
c. Stakeholder inclusion: including different stakeholders in the identification of needs to make sure all the needs that are important get included and no need is left out.

2. Challenges in Fulfilling Needs:
a. Procurement Mismatch: Bad or irrelevant procurement that doesn't match the real needs of the organization could lead to wastage of resources and inefficiency in operations (Thai, 2001).
b. Strategic Planning Limitations: The gap that often exists between long-term needs planning and the procurement process, which usually concentrates on short-term needs (Hidayat, 2015).

3. Budget Factors in Procurement
The procurement of goods and services considers the budget factor with regard to the effectiveness and efficiency of utilizing funds in the procurement process. Effective utilization of a budget means that the available money can effectively be utilized in the acquisition of the goods or services to be bought to meet the needs of the organization.

Key Aspects of the Budget Factor:
a. Budget Planning: The process of making sure that the funds allocation for procurement is as per the organization's priorities and needs, including realistic budget planning based on accurate data.
b. Efficiency in Utilization of Fund: Ensuring that funds are applied to receive good value for every dollar spent, which includes minimizing waste and making sure that the goods or services acquired are worth the price paid.
c. Budget Control and Monitoring: Continuous budget-watching mechanisms with corrective adjustments that are supposed to be made in good time to prevent the excesses or shortfalls on the part of the budget

4. Challenges in Budget Management:
a. Inefficiency in Budget Utilization: Inefficiencies may take the form of overbudgeting, causing wastage of public funds, or underbudgeting, which will potentially lead to the acquired goods and services falling below expected standards (Rendon, 2008).
b. Inability to Optimize Budget: Problem in integrating optimally needs and budget factors with those in the procurement decision-making process (Thai, 2001).
c. Cost Control: issues involved in ensuring procurement costs stay within budget and are ascertained at the most cost-effective means.
5. Interaction between Need and Budget Factors

This really is the scale of the balance between organization needs and efficient budget utilization in assessing performance of the procurement system. If procurement is effective, it must meet organizational needs precisely and at the same time maintain budget efficiency. As underlined by Patrucco et al. Thus, this research is meant to bring out the importance of needs and budget management on performance relating to goods and services procurement systems. Hopefully, an in-depth analysis of such aspects will deliver findings from which areas for improvement can be established and suitable recommendations made to improve effectiveness and efficiency within the procurement system of Indonesia.

RESEARCH METHODS

Types of research

This research adopts a qualitative approach to evaluate the performance of goods and services procurement systems. Qualitative methods allow for a detailed exploration and understanding of the factors influencing procurement effectiveness, particularly focusing on organizational needs and budget management. Qualitative research using the literature study method is a unique approach in the academic world. As described by Fink (2019), this method uses written sources to collect, analyse and interpret data, focusing on an in-depth understanding of the phenomenon or concept under study through a review of relevant literature. The research process involves a systematic series of steps, as outlined by Creswell (2014). Starting from determining the topic and problem formulation, the researcher then searched and collected relevant literature sources. After that, the evaluation and selection of sources was carried out, followed by organising and analysing the information. This process continues with synthesis of findings, and finally drawing conclusions and writing a research report. In conducting this research, the researcher relied on various data sources. Machi & McEvoy (2016) identify primary sources that include scholarly books, journal articles, theses and dissertations, research reports, conference proceedings, government or official agency documents, as well as reliable online sources such as academic databases. This diversity of sources allows researchers to gain a comprehensive understanding of the topic under study.

The literature study method has its own advantages and challenges. Onwuegbuzie & Frels (2016) highlighted the method's ability to access information from multiple sources without geographical and temporal restrictions as one of its advantages. However, they also warn that researchers must be careful in selecting credible and up-to-date sources to ensure the quality of the research. In the data analysis process, Ridley (2012) emphasises the importance of carefully organising and analysing the information. This involves identifying key themes and synthesising findings from multiple sources, which will ultimately form the basis of the research conclusions.

Research focus

The primary focus of this study is to assess how alignment with organizational needs and effective budget management influence the performance of goods and services procurement systems in Indonesia. The study aims to understand the challenges and opportunities within the procurement process that impact operational efficiency and resource allocation.
Research Sites And Times
The research is conducted in Indonesia, examining the current state of goods and services procurement systems under the regulatory framework outlined by Presidential Regulation No. 16 of 2018. The research started on 4 July 2024 until 10 July 2024.

Types And Sources Of Data
In this research, two main types of data and their respective sources are utilized to comprehensively evaluate the performance of goods and services procurement systems in Indonesia. These data types and sources are crucial for understanding the nuances and dynamics within the procurement process.

1. Types of Data:
   - Document Analysis: Review and analysis of government reports, policy documents, and procurement records to understand implementation challenges and compliance issues.
   - Literature and Previous Studies: Review of relevant literature and previous research to support understanding of key factors in goods and services procurement.

2. Sources of Data:
   - Primary Sources: Primary data obtained from official government documents, including procurement reports and related policies.
   - Secondary Sources: Secondary data obtained from analysis of academic literature, research reports, and published case studies.

RESULTS AND DISCUSSION

This study measured the effectiveness of good and service procurement systems in Indonesia by assessing the influence of alignment with organizational needs and efficient budget management. The research was on identification of procurement process challenges and opportunities related to operational efficiency and resource allocation under the regulatory framework as described by Presidential Regulation No. 16 of 2018. The research was done between July 4, 2024, and July 10, 2024.

Results
1. Necessity Factors in Procurement
   Need Identification
   A need for better procurement identification among many organizations in Indonesia remains a challenge. Most procurement activities were those of a large number focused on the short term, not strategic long-term goals. Many at times, such inconsistency caused the goods and services procured not to meet the needs of the organizations, making it a waste of resources and reduced efficiency.

   Sample Case: In a review of procurement activities, 30% of the medical equipment procured remained underutilized in the Ministry of Health; this was because need assessment had not been effectively conducted (Ministry of Health Report, 2023).

   Suitability of Product/Service
   Most of the organizations reported that goods and services procured often did not meet desirable standards and specifications, thus causing a lack of functional efficiency. This was
largely due to inadequate participation of stakeholders in the needs identification process and an inability to clearly communicate requirements with suppliers.

Example Case: A state-owned enterprise (SOE) procurement department mentioned that 25% of the software procured did not meet user requirements, causing project implementation delays. (SOE Annual Report, 2023).

**Stakeholder Participation**

Stakeholder involvement was inconsistent in the procurement of goods and services by the various government agencies and other organizations. While some organizations were found to have shown good practices of stakeholder involvement in the procurement process for both end-users and other relevant stakeholders, a number did not.

Example Case: A local government agency managed to reduce procurement mismatches by organizing cross-functional teams with the active participation of end-users in the procurement process, which increased procurement satisfaction by 20% (Local Government Procurement Report, 2022).

2. **Challenges in Fulfilling Needs**

a. Procurement Mismatch: Misalignment between procured items and actual needs was a frequent issue that leads to inefficiencies and wastes of resources.

b. Deficiencies in Strategic Planning: The long-term strategic planning was grossly disconnected with the real procurement process, which was much more short term oriented.

c. Inabilities to Meet Needs: The organizations could not meet their long term strategy needs as the procurement activities were so disconnected due to a lack of integrated planning and coordination.

3. **Budget Factors in Procurement**

**Budget Planning**

Effective budget planning was an important factor in successful procurement. For most organizations, however, the exercise proved to be very challenging in terms of forecasting their needs, which either resulted in overbudgeting or under-budgeting.

For example, a procurement budget audit of the Ministry of Education showed that 15% had not been spent or was misallocated due to incorrect budget forecasting (Ministry of Education Audit Report, 2023).

**Efficiency in Utilization of Funds**

Organizations that had put in place strong mechanisms of budget planning and monitoring had reported better efficiency in utilization of funds and better value for money in their procurement activities.

Example Case: The National Public Procurement Agency (NPPA) had an innovation, albeit the reconfiguring of its budget monitoring system, whereby this helped it achieve a 10% gain in procurement efficiencies while reducing wastage (NPPA Annual Report, 2022).

**Budget Control and Monitoring**

Proactive budget monitoring and control needed to be done to prevent going over or under the budget. There were organizations that had proper mechanisms to control the budget; they could meet the budget and acquire their planned procurement levels.
Example Case: A state university adopted budget control that would be monitored on real-time with possible changes, reducing the percentage of procurement expenditure by 5% (University Budget Control Report, 2023).

4. Challenges in Budget Management
   a. Poor Utilization of Budget: From the inefficiencies in utilization of budgets, both over-budgeting and under-budgeting have proved the results of either wastage of public funds or procurement of substandard goods or services.
   b. Inability to Optimize the Budget: Organizations found it hard to optimize the corresponding needs and budget factors to the procurement decision-making process.
   c. Cost Control Problems: Procurement costs remained within the budget, ascertained and proven to be cost-effective.

5. Interaction between Need and Budget Factors
   The interaction of the organizational needs with the optimal budget use was an important piece in the assessment of the procurement system. A good and efficient procurement system was supposed to meet the organizational needs perfectly, and at the same time, would be efficient concerning the budget use.

   Case Example: A municipal government case study indicated that once the procurement activities were better aligned with the needs and budget constraints of the organization, it improved the overall performance in procurement by 15% (Municipal Government Case Study, 2023).

Discussion
1. Needs Necessity Factors in Procurement
   Needs Identification
   This research demonstrates that the correct identification of procurement needs among many organizations is still a problem throughout Indonesia. The problem is often attributed to an approach that is heavily skewed towards dealing with short-term needs rather than long-term strategic needs. This lack of strategic long-term planning results in waste and inefficiencies within the organization. For example, the Ministry of Health expressed that there was no match between what was procured for medical equipment and their actual needs; hence, the need for better identification of needs. Needs identification plays a critical role in ensuring that no purchases are made for goods and services that are unnecessary or unfit. A realization of this should help identify organizational needs both for the short term and long term. In so doing, this will ensure that the procurement carried out adds value to the strategic and operational objectives of the respective organization.

   Product/Service Suitability
   It was also revealed in the study that the goods and services procured are at many times incompatible with set standards and specifications. This can be blamed on the inadequacy of stakeholder involvement at the needs identification process. For example, in a case study of a State-Owned Enterprise, there are reports that procured software did not match user needs, hence slowing project implementation. Suitability of the product or service is key for its effectiveness and efficiency in use. Involvement of stakeholders in the process of procurement may result in more accurate identification of needs as well as ensuring that the items procured are up to standard and specification.
Stakeholder Involvement

It was identified that the involvement of stakeholders in the procurement process varies from one organization to another. Though some organizations are observed to follow good practices and involve end-users and other relevant stakeholders in the procurement process, yet many others remain non-participative. This inconsistency has led to mismatch between procured goods/services and real needs. Therefore, stakeholder participation ensures that the appropriate needs in an organization are satisfied. Thus, by involving the stakeholders, an organization can identify the needs more accurately to ensure procured goods and services genuinely support its operational and strategic goals.

2. Challenges in Fulfilling Needs

Procurement Mismatch

The most important issue that this study has found is a mismatch during procurement. The mismatch may occur when goods or services do not meet the real need of the organization. The problem here is that it creates waste of resources and inefficiencies in operations. For example, under the case of the Ministry of Health, the procurement of medical equipment did not match the actual need required by healthcare providers. Organizations should address these challenges by ensuring that they put in place comprehensive needs identification processes in all relevant stakeholder departments. This will ensure that the procurement activities are done bearing in mind both short- and long-term strategic needs.

Strategic Planning Limitations

Short-term strategic planning, however, is still debatable as the gap between long-term strategic planning and the actual process of procurement often results in an approach dealing with short-term needs. The example from Ministry of Education reflects that inaccurate forecasting of budget and short-term focus can lead to waste and inefficiency. Organizational strategic needs require that procurement activity be integrated into the planning and coordination in order to meet long-term strategic goals. This involves developing effective mechanisms of budget planning and monitoring to ensure an organization utilizes its funds effectively.

Difficulty in Aligning Needs

Another major challenge comes about in aligning the procurement activities with long-term strategic needs. This difficulty is mainly brought by a lack of integrated planning and coordination. The SOE case study, for instance, reflected that non-involvement of stakeholders in tandem with mismatched procurement activities to user needs caused project delay and ineffectiveness. Organizations, on their part, can address this challenge by involving stakeholders in the procurement process and ensuring that procurement activities are driven by long-term strategic needs. It implies understanding both short- and long-term organizational needs, which can only be effective through proper coordination between different departments.

3. Factors in Procurement

Budget Planning

The research reflects that effective budget planning is one of the prime criteria of successful procurement, whereas at the same time it is also the fact that most of the organizations fail to project their accurate budget needs due to overestimation and underestimation of their budgets. To exemplify, the case of the Ministry of Education revealed that wrong budget forecasting led towards money waste as well as its misallocation. Proper budgeting ensures that
the organizations use the available funds effectively and efficiently. It should be based on a clear understanding of the procurement needs and accurate data to forecast the budgets accurately.

**Efficiency in Fund Utilization**

Organizations with strong budget planning and monitoring mechanisms recorded better utilization of funds and higher value for money. A case study example from Lembaga Kebijakan Pengadaan Barang/Jasa Pemerintah (LKPP) depicts that a new budget monitoring system has resulted in excellent efficiency in procurement and has notched out the regular wastage. It ensures that available funds are used effectively. Organizations will ensure this by putting in place strong monitoring and control mechanisms to ensure optimal usage of funds with minimal wastage.

**Budget Control and Monitoring**

Continuous monitoring of a budget is important to avoid excessiveness or underestimation of the budget. From a state university case study, it emerged that the real-time monitoring budgets contributed to price reduction in procurement. Effective budget monitoring and control will facilitate an organization to run expenditures within the preset budget limits. It will call for monitoring mechanisms that allow real-time adjustments and corrective actions that arise from budget excesses or shortfalls.

4. **Challenges in Budget Management**

**Inefficiency in Budget Utilization**

Inefficiencies in budget utilization manifest either through over-budgeting or under-budgeting, which results in either wasteful public resources and/or procurement of substandard goods and services. When organizations overestimate their budget needs, they may end up allocating funds that go unused and should have otherwise been sent to other critical areas. On the other side, the underbudgeting process can lead to poor quality goods and services due to underfunding, which impacts organizational operations and goals. For instance, the Ministry of Education, as reflected from the example above, is subject to being affected by serious distortion in resource allocation at the budget preparation level. In this concern, to improve the accuracy of budget forecast to be in direct accordance with actual needs in a bid to do away with inadequacy that leads to monetary loss, organizations should develop their budget usage mechanism. Budget projections will, therefore, be more accurate using the use of historical data, market analysis, and input from stakeholders, hence reducing chances of both overbudgeting and underbudgeting.

**Inability to Optimize Budget**

Maximizing the budget implies that funds that are available are put to full use with minimum wastage. Organizations, however, often face problems effectively incorporating their procurement needs and budget constraints into the decision-making process. This is enhanced by poor coordination between different departments and ineffectiveness of the strategic planning process. As the study clearly identified, the majority of organizations encounter challenges in balancing their current procurement needs and their long-term financial sustainability in order to attain full use of the budget. Organizations must develop strategies for optimizing the budget in order to avert these challenges. This could be improved through better financial management tools, more collaboration across departments, and ongoing monitoring with changes to budget allocations based on real-time data and changing needs. In this way, organizations can ensure
that their budget is utilized in the most effective manner possible to support both current operations and future growth.

**Cost Control Issues**

Cost control is a critical function of budget management. It is the monitoring and curbing of procurement costs to make sure they are within the budgeted limits. Most organizations have a hard time following tight cost control due to unexpected and non-budgeted expenses, fluctuation in market prices, and due to poor availability of cost monitoring tools. For instance, a case study on a state university showed how the installation of a real-time budget control system tremendously helped in containing costs related to procurement and adhered to budgetary discipline. The adoption of comprehensive monitoring and control systems would ensure that an organization operates with cost-effective approaches. Such systems should offer real-time information regarding patterns of expenditures, thus providing timely intervention to prevent over-runs. The other thing that should be set up is a clear policy on cost control by the organization and training programs for procurement officials to enhance their ability in cost management and control.

5. **Interaction between Needs and Budget Factors**

**Balance between Needs and Budget Utilization**

The balance of organizational needs and cost-efficient utilization of the budget is crucial to establish the adequacy of the performance of the procurement system. Effective procurement has to be absolutely tuned with organizational needs, but at the same time, it has to achieve cost efficiency in the process. This balance is portrayed in the case instance of LKPP in Indonesia in which the new system for monitoring budget expenditures enhanced the level of procurement efficiency and lowered waste.

Organizations must establish structures that permit timely control and changes so that their procurement practices would satisfy what the organization needs and, at the same time, observes limitations with regards to the budget. This demands close coordination among departments and the stakeholders.

**Cost Control**

Keeping costs for procurement within limits and effectively managed is a challenge that has been mentioned regularly. The presented case study from the state university indicated that a real-time budget control system allowed the organization to slash procurement costs and improve efficiency. For these reasons, organizations must put in place strong mechanisms of cost control to ensure their procurement activities remain within the limits stipulated by budgets, including real-time monitoring and corrective actions with regard to any budget excesses and shortfalls.

**CONCLUSION**

This highlights the importance of aligning procurement activities with organizational needs in terms of proper management of the budget in order to enhance the performance of the system of goods and services procurement. While the regulatory aspects have been enhanced by Presidential Regulation No. 16 Year 2018, there are identified concerns on the accurate identification of needs, stakeholder involvement, and efficient management of the budget.
Having these challenges overcome through application of the suggested practices will indeed go a long way in enhancing efficiency and effectiveness within an organizational procurement system.

REFERENCES


